

**OVERSIGHT AND MANAGEMENT OF THE GOVERN-
MENT PURCHASE CARD PROGRAM: REVIEWING
ITS WEAKNESSES AND IDENTIFYING SOLUTIONS**

HEARING
BEFORE THE
SUBCOMMITTEE ON
OVERSIGHT AND INVESTIGATIONS
OF THE
COMMITTEE ON ENERGY AND
COMMERCE
HOUSE OF REPRESENTATIVES
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(II)

CONTENTS

	Page
Testimony of:	
Calbom, Linda M., Director, Financial Management and Insurance, U.S. General Accounting Office	75
Frazier, Hon. Johnnie E., Inspector General, U.S. Department of Commerce	6
Friedman, Hon. Gregory H., Inspector General, U.S. Department of Energy	14
Mead, Patricia, Acting Assistant Commissioner, Office of Acquisition, U.S. General Services Administration	83
Mournighan, Stephen D., Deputy Director for Procurement and Assistance Management, U.S. Department of Energy	55
Price, Howard G., Procurement Analyst, U.S. Department of Commerce ...	52
Rehnquist, Hon. Janet, Inspector General, U.S. Department of Health and Human Services	18
Sade, Michael S., Director for Acquisition Management and Procurement Executive, U.S. Department of Commerce	46
Styles, Hon. Angela B., Administrator for Federal Procurement Policy, U.S. Office of Management and Budget	88
Weisman, Marc R., Acting Deputy Assistant Secretary for Grants and Acquisition Management, U.S. Department of Health and Human Services	58

(III)

OVERSIGHT AND MANAGEMENT OF THE GOVERNMENT PURCHASE CARD PROGRAM: REVIEWING ITS WEAKNESSES AND IDENTIFYING SOLUTIONS

WEDNESDAY, MAY 1, 2002

HOUSE OF REPRESENTATIVES,
COMMITTEE ON ENERGY AND COMMERCE,
SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS,
Washington, DC.

The subcommittee met, pursuant to notice, at 10 a.m., in room 2322, Rayburn House Office Building, Hon. James C. Greenwood (chairman) presiding.

Members present: Representatives Greenwood, Gillmor, Burr, Bass, Fletcher, Deutsch, Stupak, Strickland, and Tauzin (ex officio).

Staff present: Ann Washington, majority counsel; Yong Choe, legislative clerk; and Edith Holleman, minority counsel.

Mr. GREENWOOD. Good morning. Today the subcommittee is holding a hearing to discuss government purchase cards, known in conjunction with government travel and fleet cards as the Smart Pay Program.

Specifically, we will review the oversight and management of the purchase card program by various agencies. We will also identify weaknesses within the program that make it vulnerable to fraud and misuse and discuss possible solutions to these potentially very costly problems.

No well informed observer disputes that the Purchase Card Program has produced savings. Its objectives are to reduce procurement administrative costs, improve management by expediting and simplifying small purchases, and improve internal controls to eliminate the fraud and abuse present and other small purchase methods.

The first two objectives generally seem to have been met. The General Services Administration will testify today that the actual governmentwide savings realized since the current program's inception in 1998.

It is the third objective, implementation of controls to eliminate fraud and abuse that seems to have escaped serious attention. Sadly, fraud and abuse of procurement systems is ever present both in the government and in the private sector.

While the purchase cards are a more efficient and cost effective procurement tool compared to previous systems, they are, unfortunately, subject to abuse.

Reports began to surface of purchase card fraud and abuse by agency employees last year. Many of us have read the embarrassing accounts of the employee who used his government purchase card to buy some very personal items for his significant other.

According to experts in the field of fraud detection, most such instance of fraud are uncovered either through employee notification or anonymous tips.

This raises a central question. Why aren't the internal management controls set up to oversee the purchase card programs detecting fraud?

The General Accounting Office will testify today about auditing the Purchase Card Program at a variety of agencies, focusing on the identified weaknesses of the program. It will also provide suggestions for improvements to the program as a whole.

The GAO audits were the impetus for this committee's increasing interest in the Purchase Card Program. In July of last year, I wrote to 17 Federal departments, agencies, and commissions within this committee's jurisdiction requesting various data about their prospective programs and program procedures. Information received through that request raised still more questions regarding the management of the program at the various agencies.

As an example from just one agency demonstrates the size and scope of the program alone is reason enough to warrant thorough oversight. Consider that at just this one agency over 1,200 card holders have monthly purchase limits of \$25,000 or greater. Eight card holders have \$1 million monthly purchase limits with \$100,000 single purchase limits. Over 240 card holders have more than one active account.

At another agency we found similarly disturbing arrangements. In that instance, 81 card holders at six field offices have more than one purchase card. Of these, 67 have two cards. Eight people have three cards. Three people have four cards. One person has five cards. One person has eight cards, and one other person is managing to get along with ten.

Three hundred and one card holders within one office have monthly limits of \$999,999. At 11 field offices, all card holders have a monthly purchase limit of \$25,000 or greater.

At one field office, all 149 card holders have a monthly purchase limit of a half a million dollars. These are just a handful of examples that prompted this committee to seek a closer review of this program. There may be perfectly legitimate reasons for some or all of these remarkable arrangements.

I look forward to discussing them with the agency witnesses here today. The Offices of Inspectors General are responsible for oversight of the government Purchase Card Programs. In researching this issue, we met with representatives from the IG offices for all agencies within our jurisdiction.

We discovered that while some Inspectors General perform regular audits and inspections of the programs, others just recently began reviewing their agency's programs mainly in reaction to GAO audit findings last year.

While very few of the reports turned up the type of disturbing purchasing arrangements as those discovered by GAO, all found

weaknesses in the programs. Today we will discuss those weaknesses, as well as the suggestions made for improvement in any action taken by the agencies in light of those suggestions.

We will also discuss what follow-up was performed by the Inspectors General.

Additionally, we will hear from Mr. Johnnie Frazier who is testifying not only as the IG from the Department of Commerce, but also as the designee for the President's Council on Integrity and efficiency.

The council is in the process of composing a guide to assist the IG community in its endeavors to oversee the Purchase Card Programs properly. Mr. Frazier will be able to provide us with some insights into the council's efforts regarding these programs and the role that council will play going forward.

To further reduce the risk of fraud and misuse, Congress must insist the financial procurement at the agencies incorporate best practices as a benchmark for program management. I am pleased to have some of these individuals here with us today to discuss the elements of their agencies' programs, specifically how safe guards are set up and regularly maintained to prevent the occurrence of fraud or abuse.

We will also talk to one agency analyst who has first-hand knowledge of a fraud case within his agency. I am very much looking forward to the information he has to share with this committee, and I would like to thank Mr. Price from the Department of Commerce for coming before us today.

The Office of Management and Budget has also moved the issue of government Purchase Card Programs onto its radar screen within the past several weeks. We met with OMB in early April to discuss the committee's concerns regarding this program and to extend an invitation to testify at this hearing.

I am very please to see the April 18, 2002 memorandum issued by OMB's Director, Mitch Daniels directing the agencies to review their purchase card programs and to submit reports to the Office of Federal Procurement Policy by the beginning of June.

I am very encouraged by this step, and I am eager to learn more from OMB today regarding how it plans to pursue this review. I am also interested in any suggestions OMB currently has to improve the program.

Our purpose today is not to suggest the Purchase Card Program is rife with abuse or that it should be abandoned. On the contrary, the general consensus is that it is a relatively successful program.

But some very serious shortcomings have been identified that need to be dealt with sooner rather than later to prevent more serious episodes of fraud.

I thank all of the witnesses for attending. I now recognize the Ranking Member of the subcommittee, Mr. Deutsch, for his opening statement.

Mr. DEUTSCH. Thank you, Mr. Chairman, for holding this hearing on the government Purchase Card Program.

Insuring that Federal agencies are spending taxpayers' money in an efficient, proper manner is one of the cornerstones of a democracy. It is critical to building trust amongst our citizens. And even

when a program is running was, as the Purchase Card Program is, you can always make it better.

Today I particularly want to thank the agency Inspector General, IGs, as well as the General Accounting Office, for the unglamorous, good government work they do every day to keep all of us honest. Without their efforts, I am sure more fraudulent activities would occur.

The misuse uncovered in this program is small, but if proper controls are not put into place, it could become larger. I look forward to hearing the insight and potential solutions that we will bring to this hearing.

Mr. GREENWOOD. Thank you, Mr. Deutsch.

[Additional statements submitted for the record follow:]

PREPARED STATEMENT OF HON. W.J. "BILLY" TAUZIN, CHAIRMAN, COMMITTEE ON
ENERGY AND COMMERCE

Thank you Chairman Greenwood, and let me commend you for conducting this inquiry into the Federal government's purchase card program.

One of the essential functions of this Subcommittee is to cast a spotlight on areas within the Full Committee's jurisdiction that are subject to, or *susceptible to*, abuse of taxpayer dollars.

This morning, we'll examine a program that was put in place to save time and money. By all accounts it has done so—but it has also opened new opportunities for fraud and abuse.

The use of purchase cards, which are government Visa or MasterCard bankcards issued through the SmartPay program, is an excellent and efficient way to streamline the procurement process—particularly for relatively low-cost, but large-volume purchases. Instead of having to fill out sheets of paper for every little purchase by a government agency, which then would require several layers of review and approval, agency employees now use these bankcards to make quick and efficient purchases.

People should applaud the General Services Administration for deploying this program for use by Federal agencies. It has reportedly saved taxpayers more than a billion dollars a year in administrative costs, freeing up funds that we all know we need for more essential government programs and services.

Yet when these agencies use what essentially is a new technology, these agencies are also obligated to tackle the inevitable side effects of the technology.

Unfortunately, as demonstrated by a series of agency Inspector General reports, GAO reports, and *our own* oversight investigation, this is not the case. The agencies, so quick to distribute purchase cards to employees and contract workers, appear to have been slow to implement management procedures to monitor and control abuse and cut down on fraud.

The various investigations into the program have exposed weak internal controls, which leave us with no comprehensive way to assess how extensive the abuse problem is. All we see are large gaps that leave plenty of room for abuse, as you indicated Mr. Chairman. While the known fraud and abuse is very small when compared to the \$13 billion worth of purchases through these cards annually, the unavoidable fact is that, because of the poor internal controls in place at Federal agencies to catch such fraud, we have no idea how big the problem actually may be.

What usually surfaces to our attention are anecdotal examples of abuse—the supposed trips for office supplies that turn out to have been personal shopping trips for jewelry or personal computers. However, we all know that where there's smoke, there's usually fire. And so our task is to make sure the proper control procedures will be followed to reduce the instances of fraud that may be occurring, out-of-sight and on the fringes of the Federal government's huge purchasing activity. Even a 1% fraud or abuse rate would amount to more than \$130 million every year in wasted taxpayer dollars.

I look forward to examining what appears to be a failure to confront the size of these program control gaps. Most of the IG reports concluded that the purchase card programs worked very well, with little or no misuse of funds. That may be so, but the reports also identified weaknesses within these programs that should raise serious questions about how they are managed, as well as the evidentiary basis for the IGs' benign conclusions about the extent of the potential fraud.

Here are some of the weaknesses identified by one IG report, which, I should add, were described as "minor deficiencies": Bankcard activity never reviewed by the contracting office head, unauthorized use of the card permitted, purchases of prohibited items, purchases not pre-approved when required, receipt of goods purchased not documented, competition for purchases of over \$25,000 not promoted. Now these aren't minor deficiencies; they go to the core of what good internal controls should be about.

There's a lot of ground to cover this morning. I look forward to the testimony of our witnesses, the insights into the nature of fraud and abuse, and the advice about how to improve the management of these programs.

Thank you Mr. Chairman, and I yield back the remainder of my time.

PREPARED STATEMENT OF HON. BART STUPAK, A REPRESENTATIVE IN CONGRESS
FROM THE STATE OF MICHIGAN

Thank you, Mr. Chairman, for holding this hearing concerning the integrity of the government purchase card program.

Since 1998, over 300 federal department and agencies have issued government credit cards to certain employees and assumed liability for the bills. The program was designed to streamline the procurement process, eliminate complex paperwork, and to decrease fraud and abuse.

To a great extent, it has done so.

It saves the government \$1.3 billion annually by reducing the previous \$54 cost of processing each individual purchase.

To avoid fraud requires effective agency controls and trustworthy federal employees.

The vast majority of federal employees meet this standard, and the amount of fraud in almost \$14 billion of these purchases is minuscule.

However, particularly egregious examples of abuse have occurred in the Navy and the Education Department because there have been very few internal controls in place.

We want to thank the inspectors-general and the General Accounting Office for their continuous work in bringing these abuses to the public's attention.

In its reports, the GAO cited a lack of stringent internal controls as a consistent and primary factor in government purchase card abuse.

As one of our other witnesses will tell us today, one of the most essential elements for protecting the program from abuse is a "diligent, knowledgeable approving official." We want to make sure that the agencies under our jurisdiction have these internal controls and knowledgeable approving officials in place and working.

I do also want to bring to the Subcommittee's attention a concern that is directly related to the use of purchase credit cards.

A recent analysis of contracting records showed that the government bought more than half of its products and services last year without a competitive process.

Over \$120 billion were purchased in this way—and credit cards were used for a significant amount. I hope, Mr. Chairman, we are not trading the savings of credit cards for the savings of competition, and I would suggest that we look into this more fully.

I look forward to hearing the testimony of these witnesses.

Mr. GREENWOOD. I ask unanimous consent to insert into the record the OMB directive of April 18 referred to in my opening statement.

And we will now recognize our witnesses. Our first panel consist of the Honorable Johnnie E. Frazier, Inspector General, U.S. Department of Commerce; the Honorable Gregory H. Friedman, Inspector General, U.S. Department of Energy; and the Honorable Janet Rehnquist, Inspector General, U.S. Department of Health and Human Services.

Welcome, and thank you for being with us this morning.

Each of you is aware that this is an oversight investigation hearing, and it is our practice to take testimony under oath. Are each of you willing to give your testimony under oath?

PARTICIPANTS. I am.

Mr. GREENWOOD. Okay. Pursuant to the rules of this committee and to the rules of the House, you are each entitled to be represented by counsel. Do any of you request to be represented by counsel this morning?

PARTICIPANTS. No.

Mr. GREENWOOD. In that case if you will rise and raise your right hands, I will give you the oath.

[Witnesses sworn.]

Mr. GREENWOOD. Okay. You are under oath, and I believe we will take the testimony of Mr. Frazier first.

Welcome, sir. Thank you, again, for being with us, and you are welcome to give your opening statement for about 5 minutes.

TESTIMONY OF HON. JOHNNIE E. FRAZIER, INSPECTOR GENERAL, U.S. DEPARTMENT OF COMMERCE; HON. GREGORY H. FRIEDMAN, INSPECTOR GENERAL, U.S. DEPARTMENT OF ENERGY; AND HON. JANET REHNQUIST, INSPECTOR GENERAL, U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Mr. FRAZIER. Thank you.

Good morning. Mr. Chairman and members of the subcommittee, I am pleased to appear before you today to discuss my office's activities to oversee Commerce's Purchase Card Program. I would like to share with you some of the good, the bad, and the ugly things that we have learned about the program.

First, the good. The fact that the overwhelming number of Commerce and other Federal employees use their government purchase cards responsibly. These card holders follow appropriate procedures, are careful to avoid making improper purchases, and stay alert to the best practices that can help the program operate more efficiently.

As for the bad, I am concerned that the program still has a number of systemic weaknesses and problematic practices that leave it vulnerable to fraud, waste, and abuse.

And ugly, simply stated, those dishonest employees who fraudulently misuse their cards, reports in the media, from the IGs and others have highlighted the illegal use of government purchase card, and as a result have given rise to the program as a negative image.

As Commerce and other agencies push for greater efficiencies in the acquisition process, purchase cards will become an ever more critical procurement option and their use will surely increase. Hence, I believe that our collective efforts, including today's hearing, can improve the Purchase Card Program governmentwide if we are guided by three key principles that I've highlighted on the poster.

Stop any and all personal abuses with aggressive oversight and strong disciplinary action. Caution managers to address systemic weaknesses and problematic practices. Go forward at full speed to implement best practices and other proactive efforts that will prevent problems and promote efficiency. So what should we be doing? Again, we must stop personal abuses with aggressive oversight and strong disciplinary actions. Our completed investigations at Commerce have found the ugly side of the program. For example, a Office of the Secretary contract specialist who unfortunately used her

government purchase card to buy approximately \$50,000 worth of clothing, jewelry, electronic equipment, furniture, airline tickets, household supplies, hotel accommodations, and other things.

In another case, the former Secretary with the Weather Service in Alaska continued to misuse her card for a year because she intercepted the monthly statements and kept them from her supervisor.

There are other equally troubling examples in my prepared statement, but I hope that you, like me, find some comfort knowing that in every case that we have investigated, the dishonest employees were promptly fired, forced to resign, and all received strict punishments from the court. Not one of the individuals found guilty as a result of our investigation is still employed at the Department of Commerce.

But we cannot stop there. We must caution managers to address systemic weaknesses and problematic practices. In 1995, my office began conducting audits and other reviews of the purchase cards. Often we found systemic weaknesses needlessly left the program vulnerable. Purchase cards were not properly secured. Split purchases were made on multiple occasions to avoid purchase card limitations. Required purchase card training was not completed.

And because competitive procurement procedures for purchases over \$2,500 were not always used, there was no assurance that the government obtained the best prices.

Our reviews have continued, including our ongoing department-wide audit of the program. At the same time, we must go forward at full speed to implement the best practices and other proactive efforts that will prevent problems and promote efficiencies.

Of course, it needs to be said again that everything is not gloom and doom with regard to the Purchase Card Program. Clearly, the vast majority of Commerce's 6,000 card holders are attempting to do a good job.

However, we believe that we must constantly work with Commerce officials, the Congress, and others to look at ways to improve the program. For example, we should publicize common problems and their solutions; look for problems before problems find us; maintain constant oversight; and insure that senior managers verify that their own houses are in order. I have done this in my own office.

This completes my testimony as the Commerce IG, but please allow me a few moments to speak as a representative of the PCIE. As you know, the PCIE is the council of Presidentially appointed IGs. And I am pleased to report that the IG community is working to strengthen the Purchase Card Program governmentwide.

As evidenced by the presence of my distinguished IG colleagues here today, other IGs have also been involved in the purchase card program reviews, and it is clear that this is truly a cross-cutting issue that has the attention of most, if not all, IGs.

With this in mind, the IGs' PCIE community, the inspection and evaluation committee, which I chair, began to explore ways that the IG community members could learn from each other's experiences, again, the good, the bad, and the ugly.

Many of us have individually developed audit programs, inspection guides, or other review documents. As we began to discuss and

share our approaches and review guides, my committee thought it would be helpful to issue a reference guide that could be used by other IGs in conjunction with their own evaluation tools.

This reference guide, entitled "A Practical Guide to Reviewing Government Purchase Card Programs," will be issued in the next few weeks. The guide was originally prepared by the Department of Education's IG, Lorraine Lewis, and her staff. It provides common sense advice on conducting the purchase card reviews and includes a number of very practical features that enhance the review process, such as questionnaires, templates, and sample reports.

Mr. Chairman, I believe that this guide reflects the continuing commitment on the part of the IGs throughout government to work together in promoting efficiency and effectiveness throughout the government.

I will be glad to answer questions on either front.

Thank you.

[The prepared statement of Hon. Johnnie E. Frazier follows:]

PREPARED STATEMENT OF JOHNNIE E. FRAZIER, INSPECTOR GENERAL, U.S.
DEPARTMENT OF COMMERCE

Mr. Chairman and members of the Subcommittee, I am pleased to appear before you today to discuss the Office of Inspector General's activities to oversee the Department of Commerce's Purchase Card Program.

I'd like to share with you some of "the good, the bad, and the ugly" things that we have learned about the program. First, the good: The overwhelming number of Commerce and other federal employees use their government purchase cards responsibly. These cardholders follow appropriate procedures, are careful to avoid making improper purchases, and stay alert to best practices that can help the program operate efficiently.

As for the bad: The program still has a number of systemic weaknesses and problematic practices that needlessly leave it open to fraud, waste, and abuse.

And the ugly: Reports in the media and from OIGs and other oversight organizations have highlighted irresponsible and illegal use of government purchase cards, and as a result have given the Purchase Card Program a negative image.

For more than 15 years, government employees have relied on purchase cards to expedite their ability to make small purchases, obtain training, and otherwise streamline unwieldy federal procurement procedures. As Commerce and other agencies push for greater efficiency in the acquisitions process, purchase cards will become an ever-more critical procurement option and their use will inevitably increase. Hence, I believe that our collective efforts to improve the purchase card program government-wide must be guided by three key principles:

- **STOP** any and all personal abuses with aggressive oversight and strong disciplinary actions.
- **CAUTION** managers to address systemic weaknesses and problematic practices.
- **GO** forward at full speed to implement best practices and other proactive efforts that will prevent problems and promote efficiencies.

Background: The Purchase Card Program Has Been at Commerce for Over 15 Years

There is a long history of the purchase card program at Commerce. Over 15 years ago, in 1986, the Commerce Department was selected as one of several agencies to participate in the government's pilot purchase card program. The current version of the program dates from 1998, when the government, through the General Services Administration, awarded contracts to five nationwide banks to implement and continue the program. These contracts, awarded for five years, also have five one-year options to renew. Commerce is scheduled to re-compete its existing contract next year to determine if it will exercise its options or select a new bank.

In fiscal year 2001, the Commerce Department averaged over 6,000 purchase cardholders at any particular time, and during this twelve-month period, these cardholders completed over 330,000 transactions valued at about \$132—million. In short, the Commerce purchase card program represents substantial purchasing power, and as a result B at least from the OIG perspective B provides substantial opportunity for misuse and fraud.

So, what then are we doing to monitor the program and what do we see as the actions that are essential to improving it?

STOP personal abuses with aggressive oversight and strong disciplinary actions

With over 6,000 cardholders in the Commerce Department, we also receive allegations of purchase card abuse. The allegations, when deemed credible, are handled as criminal investigations. Here are some examples of several completed investigations:

- An Office of Secretary contract specialist fraudulently used her government purchase card to buy approximately \$50,000 worth of clothing, jewelry, electronic equipment, furniture, airline tickets, sporting event tickets, concert tickets, household supplies, and hotel accommodations. These purchase card irregularities were first reported by an approving official. After it was referred to my office, we advised the Department to immediately cancel the card, and thus, minimized the potential loss to the government while we conducted our investigation. This employee resigned during the investigation and was subsequently convicted of theft of government property, sentenced to six months in prison, followed by two months of home detention and three years' probation, as well as ordered to make full restitution.
- In another case, a former secretary with the National Weather Service regional office in Alaska was convicted of theft of government property as a result of our investigation. In this case, our investigators were contacted by the supervising meteorologist after the unauthorized purchases were finally noticed. Since the approving official was the cardholder's direct supervisor and he considered the cardholder to be a trusted employee, this misuse was able to continue for approximately a year because the cardholder intercepted the monthly statements. When the cardholder was involved in an auto accident and on extended leave, another employee opened the mail and the approving official discovered that the fraudulent purchases were taking place. In our criminal investigation of the matter, we found that, over a one-year period, the secretary charged about \$7,500 for groceries, books, school supplies, electronics, and bath accessories on her government purchase card. She also used the card to spend New Year's Eve at a premier hotel in Anchorage. She has been sentenced to five years' supervised probation and ordered to make full restitution to the government.
- Over a four month period, a former NOAA fisheries science center secretary used her government purchase card to go on a spending spree for her children, friends, and herself. Her 74 fraudulent purchases included clothing, cosmetics, gas, nightclub charges, concert tickets, restaurant meals, and Internet services. After a reviewing official noted several questionable purchases during a routine monthly review of a Citibank report, he spoke with the cardholder who admitted that she misused the card and subsequently reported this to us. A Massachusetts state court sentenced her to repay the \$4,300 theft within one year and to complete 25 hours of community service or face a sentence of up to two years and a \$25,000 fine.
- A former National Weather Service automation clerk used a co-worker's government purchase card to buy more than \$1000 in personal items, including lingerie, clothing, exercise equipment, and toys. As a result of this investigation, which was initiated by a referral from the Commerce Bankcard Center, the clerk was subsequently convicted of theft of government property. The U.S. District Court sentenced her to two years probation, 50 hours of community service, and ordered her to make full restitution to the government.
- Based on a referral from the Census Bureau, we investigated and subsequently obtained a theft conviction for a former administrative assistant's misuse of her government purchase card to buy \$800 worth of personal clothing, jewelry, CDs, and electronic equipment. She was convicted of theft of government property and sentenced to serve six months in a community correction facility, given two years' probation, and ordered to make full restitution to the government.
- The final case I will discuss is unusual in that it involved a contract employee working for the U.S. Patent and Trademark Office. A reviewing official discovered a questionable transaction, contacted the Commerce Bankcard Center, and the case was referred to our office. During our criminal investigation we learned that a departing USPTO employee surrendered her government purchase card to the contract employee/receptionist as part of her agency's separation procedure. The receptionist and a companion immediately used the card to go on a shopping spree to purchase \$700 of clothing. This individual's sentence included full restitution to the government, a year's probation, a fine of \$1,400, and 100 hours of community service.

By now, it should be clear that not one of the aforementioned individuals is still employed at the Commerce Department and that my office has an established history of fully investigating purchase card abusers, regardless of the amount involved. And it is equally important to point out that the Justice Department and state law enforcement agencies have generally been active partners in our cases, even though some of the monetary losses were relatively small, because they believe, like I believe, that ensuring the integrity of federal operations, and the trustworthiness of federal employees, is absolutely essential for maintaining the public's confidence in the government.

CAUTION managers to address systemic weaknesses and problematic practices

Beginning in 1995, my office began conducting audits and other reviews of purchase card use and related activities within various components of the Department. As a result, we have issued eleven reports that dealt specifically with the purchase card program at various bureaus. In addition, we have covered this topic in a number of our inspection reports as part of an overall review of administrative services at the offices inspected. For example, our audits included headquarters operations of NOAA, MBDA, NTIA, USPTO, and the Office of the Secretary, as well as certain laboratories, science centers, and regional offices. In addition, some of our reviews looked at purchase card use at our overseas posts. The primary purpose of our reviews was to determine if purchase card use was in compliance with the *Federal Acquisition Regulation*, the *Commerce Acquisition Manual*, and the *Department's Personal Property Management Manual*.

During these reviews, we examined a sample of purchase card transactions; reviewed applicable regulations, policies, procedures, management reports, and other records; interviewed cardholders, approving officials, and other management officials; and assessed administrative and accounting controls, including controls over the physical security and authorized use of the purchase card.

Frequently we found from these proactive reviews that systemic weaknesses and problematic practices needlessly leave the purchase card program vulnerable to waste, fraud, and abuse. More specifically, we found that:

- *Bankcards were sometimes used by unauthorized employees.* For example, during a review of a NIST laboratory, we found that several cardholders allowed other employees to use their assigned purchase cards. When questioned about this inappropriate practice, the most frequent excuse given by the cardholders was that it allowed them "to save time." Since purchase cards may only be used for purchases that are authorized by law or regulation, assigned cardholders are responsible for complying with this safeguard aimed at ensuring such things as the availability of funds and compliance with all internal controls.
- *Bankcards were often not properly secured.* In almost all of our reviews, we found that many cardholders kept cards in wallets, handbags, or unlocked desks. According to departmental regulations, cardholders are required to keep their cards in a secure place, such as a locked drawer or cabinet. Failure to do so increases the risk that the card could be stolen.
- *Split purchases were made.* Some cardholders improperly divided what should have been a single purchase into separate purchases on multiple occasions to avoid purchase card limitations. At a NIST laboratory in Boulder, Colorado, for example, seven different cardholders, over a 10-month period, purchased a security system for a total of \$83,000. This system consisted of an entrance/exit keypad and a photo identification component estimated to cost \$36,000 from a single vendor. As a result of using the split purchases, there is no assurance that the government received a competitive price or even a reasonable price.
- *Purchase order logs not maintained.* Many cardholders were not maintaining the required purchase order log, or at least not maintaining it in the proper detail. The log is designed to provide basic financial, administrative, and shipping data for each purchase card transaction. Without recording all transactions in the log, cardholders cannot adequately document, control, and reconcile purchase activity with the purchase card statement. In addition, the approving official cannot adequately determine whether the transactions are appropriate and properly categorized, or reconcile purchase activity with the monthly summary report received from the bankcard contractor. For example, a review of a US&FCS office in Brazil revealed that record keeping was so deficient that purchases could not be easily identified and confirmed.
- *Required purchase card training was not completed and documented.* All cardholders are required to complete a minimum level of training to understand basic purchasing concepts and the proper use of the card. In almost all of our reviews, we found a need to improve initial and refresher training provided to cardholders, as well as some approving officials. In some instances, there was

no documentation that required training was completed, cardholders could not remember receiving training, or cardholders were not familiar with the Commerce Acquisition Manual.

- *Competitive procurement procedures for purchases over \$2,500 were not always used or documented.* In some cases, cardholders made purchases over \$2,500 without obtaining and/or documenting required competitive quotes or developing a sole source justification. When this happens, there is no assurance that the government obtained the most competitive price or even a reasonable price. As an example, a NOAA Northwest Fisheries Science Center cardholder purchased an environmental monitor for \$7,000 without knowing if the government received the best price for the item.

We have found that these proactive reviews are especially useful at identifying systemic weaknesses in the internal controls designed to safeguard the program. These reviews are continuing, including our ongoing comprehensive Department-wide audit of the purchase card program.

GO forward at full speed to implement best practices and other proactive efforts that will prevent problems and promote efficiencies

Of course it needs to be said again that not everything is “gloom and doom” related to the purchase card program. In fact, we believe that the vast majority of the Department’s 6000 cardholders are attempting to do a quality job. However, we also believe that we must constantly work with Commerce officials, managers, and others to look for ways to improve the program and do our best to implement best practices to resolve problems, prevent and detect fraud, and encourage efficiencies. I am pleased to mention a number of proactive efforts that deserve special emphasis:

- *Properly train and support the approving officials.* After all is said and done—that is, after our recommendations have been addressed, after management has improved internal controls, after the software has been modified to check for certain anomalies—we believe, based on our past experience, that one of the most essential elements for protecting the program from abuse is a diligent, knowledgeable approving official. The approving official is responsible for monitoring cardholder’s compliance with established regulations and procedures, reviewing monthly purchase card statements, and ensuring the validity and allowability of transactions. These are also the people who most often bring allegations of abuse to our attention. Thus, we believe that the role of the properly trained approving official is perhaps the main line of defense for guarding against fraud, waste, and abuse in the purchase card program.
- *Publicize common problems and their solutions.* It is important to share with cardholders and program managers information about what does and does not work. Accordingly, we were pleased to learn that the Controller of NOAA’s Finance Office prepared a “slide show” for his office’s website that—with a dash of humor—highlighted a number of findings and recommendations from our purchase card reviews. His basic admonition to employees is “...if it’s happening there, it may be happening in your area as well.” I believe that this slide show, entitled Internal Controls Over Bankcard Programs Need Improvement, is still posted on the agency’s website and sends a powerful reminder to government cardholders.
- *Look for problems before the problems find you.* We can all learn from the experiences of others in similar situations. This was certainly the thinking of one senior Commerce official. After my office had conducted a number of reviews at National Weather Service offices, the NWS Administrator shared some of the results with more than 100 field offices and advised his managers to address any potentially similar findings at other sites BEFORE additional reviews took place.
- *Maintain sufficient and constant oversight.* We cannot over emphasize the importance of managers’ taking prompt, appropriate corrective action when problems arise. For example, the Commerce Bankcard Center has strengthened procedures and controls related to cancellation of purchase cards for terminated employees. The center requested that the various Commerce finance and payroll offices match Social Security Numbers of employees who have left the Department with the Social Security Numbers of “current” purchase cardholders. This procedure provides additional assurance that cards of terminated employees can no longer be used. While this procedure is not yet in effect with all Commerce bureaus, it is working at the bureaus that have implemented the Department’s new financial management system, and these bureaus account for 86% of the Commerce purchase cards.

- *Senior managers need to ensure that their own houses are in order.* Let me use my own office as the example here, since I do not consider that we are immune from scrutiny. In order to emphasize to the Department, and to my staff, just how seriously I regard this issue, in October 2001, I initiated a review of purchase cards used within the Office of Inspector General. At the time of the review, my office had 10 cardholders; this number has subsequently been reduced to seven. Let me note that our interval review found no evidence of fraud or misuse of funds and naturally I'm very thankful for those results. But the review did point out to me that, as federal offices try to take advantage of the greater flexibility offered by the purchase card program, supervisors and approving officials need to stringently adhere to the program's regulations and guidelines. In our case, for example, some of my cardholders had not kept their training up to date, and my office initiated steps immediately to correct that situation. So, even if an agency is using the purchase card program efficiently and effectively, I believe that agency officials must still maintain diligence to ensure that administrative indifference does not eventually open the door for problems or abuses.

The IG Community is working to strengthen oversight of the government's purchase card programs

The President's Council on Integrity and Efficiency (PCIE) is primarily composed of the presidentially appointed IGs. Two of the PCIE's primary objectives are to (1) address efficiency, economy, and effectiveness issues that transcend individual government agencies, and (2) increase the professionalism and effectiveness of OIG personnel throughout the government.

As evidenced by the presence of my distinguished IG colleagues here today from the Department of Health and Human Services and the Energy Department, and my awareness that over the past year many of the other Inspectors General have also been involved in purchase card program reviews, it is clear that this issue transcends our individual agencies and is a true cross-cutting issue that has the attention of most, if not all, Inspectors General.

With this in mind, recently the PCIE's Inspection and Evaluation Committee, which I chair, began to explore ways that the IG community members could learn from each other's experiences—again, the good, the bad and the ugly—in ways that would allow us to improve the purchase card programs government-wide. Many of us have individually developed audit programs, inspection guides, or other review documents to help guide our staffs through reviews of purchase card activities. As we began to discuss and share our approaches and review guides, the Committee thought that it would be helpful to issue a reference guide that could be used by other Inspectors General in conjunction with their own evaluation tools and techniques. This reference guide, *A Practical Guide to Reviewing Government Purchase Card Programs*, will be issued in the next few weeks.

The guide was originally prepared for the I&E Committee by the Department of Education's IG, Lorraine Lewis, and her staff. It provides common sense advice on conducting the purchase card reviews and includes a number of practical features to enhance the review process, such as questionnaires, templates, and sample reports. It is designed to assist the IG Community in its reviews of purchase card activities. My hope is that the guide will be used in combination with the other valuable assessment tools developed by the IGs to further strengthen our oversight of government purchase card programs. Mr. Chairman, I believe that this guide reflects a continuing commitment of IGs from all agencies to work together in promoting efficiency and effectiveness throughout the government.

This concludes my testimony. Mr. Chairman, I will be happy to answer any questions that you or other Members of the Subcommittee may have.

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Mr. GREENWOOD. Thank you very much, sir, for your testimony.
Mr. Friedman.

TESTIMONY OF HON. GREGORY H. FRIEDMAN

Mr. FRIEDMAN. Good morning, Mr. Chairman and members of the subcommittee. I am Greg Friedman, Inspector General of the U.S. Department of Energy.

I am pleased to be here today to testify on our current efforts in the purchase card arena. As you are aware, our February 2002 report entitled "U.S. Department of Energy's Purchase Card Program's Lessons Learned" identified programmatic weaknesses that have left the department potentially vulnerable to abusive practices.

The report also presented a series of solutions or lessons learned, which we believe can be used to improve the integrity and performance of the department's purchase card program.

Since 1998, my office has conducted 22 audits, inspections, and criminal investigations involving 12 different offices and sites in which Federal, contractor, or grantee employees were found to have misused purchase cards. Our work in this area includes the Smart Pay Program and other similar Purchase Card Programs.

Many of the allegations we investigated were prompted by information from the department, contractor and grantee officials, and contractor internal auditors. Our reviews have resulted in seven convictions, nine disciplinary actions, over \$325,000 in recovered property, fines, and restitutions, and improper purchases that we have identified included computer hardware, hunting supplies, electronics, lawn equipment, and home improvement items.

Several schemes were used to facilitate these purchases. These include generating fraudulent invoices or purchase records to mask the nature of actual purchases; making ghost purchases, that is, processing paper work as though a purchase had been made when, in fact, no products were actually ordered or delivered; providing kickbacks to suppliers who agreed to provide false or fictitious invoices; and circumventing department policies and procedures by allowing employees to approve and/or audit their own purchase card transactions.

We believe that there are a number of improvements that would enhance the integrity of the department's Purchase Card Program. First, we need to ensure the separation of responsibilities regarding the processing of purchases, approval authority, verification of receipts, and reconciliation of monthly purchase card statements.

Second, ensure that contractor and Federal employees have a clear understanding of unallowable and nonreimbursable items that may not be acquired with purchase cards.

Third, adhere to prescribed policies and procedures designed to prevent abuses.

And, fourth, develop adequate safeguards with respect to the distribution and control of purchase cards.

The department's management acknowledged the importance of the issues identified in our purchase card report, indicating its intent to ensure that adequate controls are in place to provide reasonable assurance against misuse.

My office has implemented a proactive initiative to further identify potential indicators of fraud and abuse, and we are currently auditing the Purchase Card Program at Sandia National Laboratories. We believe these efforts will help the department in strengthening its internal controls.

We recognize the benefits of Purchase Card Programs, Mr. Chairman. However, we are concerned that abusive practices may undermine the viability of such programs. We believe that actions recently taken and those proposed by the department are a good first step.

Mr. Chairman, this concludes my prepared remarks, and I would be happy to answer any questions that you or members of the subcommittee might have.

[The prepared statement of Hon. Gregory H. Friedman follows:]

PREPARED STATEMENT OF GREGORY H. FRIEDMAN, INSPECTOR GENERAL, U.S.
DEPARTMENT OF ENERGY

I. EXECUTIVE SUMMARY

Good morning, Mr. Chairman and members of the Subcommittee. I am Gregory H. Friedman, Inspector General, U.S. Department of Energy. I am pleased to be here today to testify on our February 2002 report entitled, "U.S. Department of Energy's Purchase Card Programs—Lessons Learned." Since 1998, the Office of Inspector General has conducted over 20 audits, inspections, and criminal investigations involving 12 different offices and sites in which Federal, contractor, or grantee employees were found to have misused purchase cards. Our work in this area includes the SmartPay program and other similar purchase card programs. Many of the allegations we investigated were prompted by information from the Department, contractor and grantee officials, and contractor internal auditors.

Our recent reviews have resulted in ten investigations being accepted for criminal prosecution; seven criminal convictions; nine disciplinary actions; and over \$325,000 in recovered property, fines, and restitutions. Improper purchases have included home improvement products, computer equipment, hunting equipment, electronics, lawn equipment, and tools.

Several practices were used to facilitate these fraudulent purchases. They included:

- Generating fraudulent invoices or purchase records to mask the nature of the actual purchases;
- Making "ghost" purchases—that is, processing paperwork as though a purchase had been made when, in fact, no products were actually ordered or delivered;
- Providing kickbacks to suppliers who agreed to furnish false or fictitious invoices;
- Circumventing Department policies and procedures by allowing employees to approve and/or audit their own purchase card transactions; and,
- Purchasing goods for personal use that were delivered to non-Department locations, such as an employee's home.

During the course of our reviews, we identified several systemic improvements that would enhance the integrity of the purchase card programs at the Department. For example,

- Ensuring separation of responsibilities regarding the processing of purchases, approval authority, verification of receipts, and reconciliation of monthly statements;
- Ensuring that contractor, grantee, and Federal employees have a clear understanding of unallowable and non-reimbursable items that should not be acquired with purchase cards;
- Adhering to prescribed policies and procedures designed to prevent abuses; and,
- Developing adequate safeguards with respect to the distribution and control of purchase cards.

II. HISTORY OF PURCHASE CARD PROGRAMS

During the past several years, the Federal Government has promoted the use of purchase cards. These cards provide the Government with a means to simplify its small purchase procedures and improve its cash management.

In 1998, the General Services Administration (GSA) awarded five contracts under its SmartPay program to provide purchase, travel and fleet card services for the Federal Government. As of March 2002, the SmartPay program spanned all Department Federal activities and was utilized at many sites. In addition to SmartPay, several of the Department's contractors operate programs with other banks. The most recent data available to us indicates that approximately 14,000 Federal and contractor cardholders participate in the various purchase programs, including approximately 6,100 cardholders who participate under the SmartPay program. Approximately 11,700 of the identified cardholders are contractor employees. The significant number of contractor cardholders is a reflection of the manner in which the Department is operated.

As of fiscal year 2001, purchase card activity at the Department, through the SmartPay program, reached approximately one quarter of a billion dollars. We believe this dollar amount understates purchase card expenditures in general because many of the cards in use are not part of the formal SmartPay program.

III. LESSONS LEARNED

A. Independent Receipt and Acceptance

During our reviews, we found that some contractors did not provide clear guidance on the separation of responsibilities with respect to processing, approving, and validating purchases. This resulted in an absence of checks and balances. For example, during an audit at the Department's Idaho Operations Office, we found that a contractor did not generally employ internal control methods of separating key duties to reduce the risk of loss or unauthorized use of assets. In particular, we found that the contractor did not have independent verification of the receipt and acceptance of goods and services. We also found that established procedures did not require that approving officials review actual purchase receipts when examining reconciled statements. In this case, my office recommended, in part, that the Department require the contractor to make improvements to its internal controls over the purchase card process. Management concurred with the recommendations and agreed to take corrective action.

A separate investigation at Idaho disclosed that a contractor project manager was allowed to approve and process his own purchase card orders. The investigation focused on an allegation that the manager misused a purchase card for personal items in the amount of \$85,000. The items included generators, clothing, and welding equipment. Our investigation revealed that a supply vendor facilitated the fraud by altering invoices in exchange for gifts acquired by using the project manager's purchase card. The project manager entered inaccurate descriptions of the actual property in the purchase card tracking system to disguise the transactions. In addition, he allowed a co-worker to buy personal items with the card. When the fraudulent transactions were discovered, the contractor fired both employees. The employees subsequently pled guilty to theft of government property. The project manager was sentenced to six months incarceration followed by six months home detention. The Government recovered over \$30,000 in fines and penalties and retrieved the property.

In another case, we determined that a contractor employee devised a scheme to make \$113,000 in non-existent "ghost" purchases from her personal business. The employee described the transactions in the purchase card system as awards, presentation supplies, and certificates. However, no items were delivered to the contractor and payment for the invoices was made to her personal business bank account. The employee then funneled the money from her business for personal use, including home remodeling and paying personal bills. The employee also made purchases for personal household items totaling approximately \$25,000. The items included food, a television, appliances, lawn equipment, and family vacations. The investigation revealed that the employee's supervisor was not conducting an independent review of the employee's purchases. The employee has pled guilty to theft and is awaiting sentencing.

B. Unallowable and Non-Reimbursable Purchases

Generally, Department contracts and grant agreements contain a clause that addresses costs that are unallowable and non-reimbursable. However, we noted examples in which some contractors or grantees did not comply with this contract clause. In these cases, the contractor or grantee utilized purchase cards to acquire the unallowable items. At the Department's Ohio Field Office, for instance, a contractor did not provide adequate guidance to employees on items considered unallowable under the terms of the contract. In fact, our audit questioned \$42,000 in purchase card charges. Purchases included employee morale, recognition, and incentive items such

as awards and plaques. In response to our audit report, the contractor issued more specific guidelines on unallowable costs, and subsequently reimbursed the Department. The Department also instituted a more thorough review and approval process for purchase card transactions.

C. Adherence to Policies and Procedures

Our reviews also revealed instances in which existing Department policies and procedures were circumvented. For example, each cardholder has specific single purchase spending limits. Departmental policies state that cardholders may not "split" purchases in order to avoid exceeding these spending limits. An example of this would be a cardholder splitting an \$11,000 acquisition into two separate \$5,500 purchases to avoid a \$10,000 single transaction limit. If a purchase exceeds a cardholder's single transaction limit, the acquisition must be accomplished using other acquisition procedures. We found that some cardholders utilized split purchases to circumvent cardholder single transaction limits or to avoid competition requirements. In fact, the Office of Inspector General reviews revealed split purchases at various offices and sites. One audit within the Office of Environmental Management revealed that officials split purchases to avoid Government card limits and competition requirements. In this case, web-hosting services were acquired via a purchase card. The review revealed that an official did not adhere to Government purchase card guidance. Management concurred with our recommendation to develop controls for card use. In addition, the Department revoked the purchase cards from the Federal officials who engaged in this activity.

In other instances, contractor employees did not comply with established policies regarding approval authority. For example, a supervisor at the Idaho Engineering and Environmental Laboratory provided his password identification to a purchase cardholder. The cardholder, in turn, was able to approve her own purchases without limits or scrutiny. The employee's supervisor was reprimanded and received a 13-day suspension without pay.

D. Inadequate Purchase Card Safeguards

The Department was unable to provide us with an accurate accounting of the number of Federal and contractor purchase cardholders. Specifically, we found that Headquarters provides central oversight of SmartPay activities and can readily access the number of cardholders under that program. However, until recently, the Department had not conducted a coordinated effort to account for the total number of cardholders in programs other than SmartPay.

To illustrate the potential magnitude of this problem, Department data significantly understated the number of purchase cardholders at one national laboratory. Although the Department's centralized records identified 14 cardholders at the Lawrence Livermore National Laboratory, we found approximately 300 cardholders during our review. As a result of our Lessons Learned report, Department management recently began a review to determine the total number of purchase cardholders in the Department. Approximately 14,000 cardholders have been identified among the various purchase card programs.

During our reviews, we noted at least one example where purchase card abuse may have occurred due to inadequate safeguards with respect to distribution and control. The investigation at the Bonneville Power Administration disclosed that an employee used several purchase cards, including one that was inadvertently mailed to her home, to make fraudulent purchases. The employee used the purchase cards to acquire \$11,000 in unauthorized items including electronics. The employee pled guilty to making false claims, and was ordered to reimburse the Government. The employee was sentenced to four months home detention and five years supervised probation.

IV. PROACTIVE INITIATIVE AND CURRENT AUDIT

Regarding prospective Office of Inspector General activities, my office has initiated a proactive evaluation of purchase card records in order to identify additional indicators of misuse and fraud by examining purchase card transaction databases. The specific objectives of the initiative are to:

- Identify potential fraudulent and questionable transactions using purchase cards;
- Assist the Department with promoting effective and economical management of the program, which is vulnerable to fraud, waste and abuse; and,
- Identify potential instances of non-adherence to the Department's prescribed policies, procedures and regulations.

We are also auditing the purchase card program at Sandia National Laboratories. We believe these efforts will help the Department in strengthening its internal controls associated with purchase card programs.

V. CONCLUSION

In conclusion, although we recognize the potential benefits resulting from purchase card programs, we remain concerned that abusive practices may undermine the viability of such programs. Department management acknowledged the importance of the issues identified in our purchase card report, indicating its intent to ensure that adequate controls are in place to provide reasonable assurance against abuse and misuse. The Department identified several steps to correct internal control weaknesses and to help strengthen controls over the purchase card programs, one of the most important of which was to complete an assessment of contractor policies and procedures for the use and control of purchase cards. We believe the actions recently taken and proposed by the Department are a good first step in strengthening internal controls.

Mr. Chairman, that concludes my prepared remarks. I would be happy to answer any questions that you or members of the Subcommittee may have. Thank you.

Mr. GREENWOOD. Thank you, Mr. Friedman.

Ms. Rehnquist.

TESTIMONY OF HON. JANET REHNQUIST

Ms. REHNQUIST. Good morning, Mr. Chairman and members of the subcommittee. I am Janet Rehnquist, Inspector General for the Department of Health and Human Services. I appreciate the opportunity to be part of today's discussion on the oversight and management of the government Purchase Card Program and to tell you about the ongoing work the HHS OIG is doing in reviewing how these cards are being used by HHS employees.

Approximately 5 years ago HHS began using the International Merchant Purchase Authorization Cards, that is, the IMPAC cards, to eliminate the cumbersome and costly use of procuring small purchases with purchase orders. Use of these cards streamlined government purchases and reduced paper work and administrative costs.

The individual employees procure items for the office, but are not personally billed. The credit card companies are paid directly from the component's appropriated funds.

HHS has approximately 7,500 IMPAC cardholders. Based on a rough calculation, we estimate that HHS spends about \$300 million a year on IMPAC purchases.

My Office of Investigations initiated a project in June of 2001 to determine how the IMPAC system was being used within our department. I want this review to be an essential part of the OIG's duties and responsibilities to oversee departmental spending. And Secretary Thompson has asked me to expedite our review and work with the department to improve the management of this program.

Our project is twofold: an ongoing review of the purchases made using IMPAC cards, and a review of the systems and procedures used by the department to manage these purchases.

The first part of this review we began by obtaining billing information directly from U.S. Bank, the bank that issues and processes the IMPAC purchase cards and checks. We have reviewed over a year's worth of data thus far.

Our data base presently consists of 1.5 million individual purchases. We now receive monthly data updates from U.S. Bank, which enables us to be current in our review of departmental purchases and identify improper uses on a real time basis.

Analysts review these transactions and look for unusual purchases made with the cards. Unusual transactions include pur-

chases that do not appear to be business related or for dollar amounts much higher than the typical office expenditure.

When these are identified, the analysts go back to the components or agent and request documentation to support the purchase, and sometimes there is proper documentation, and sometimes there is not.

The unusual transactions which are not justified are then referred to our regional offices for case development and investigation. To date we have referred 24 of these unjustified transactions to our regional offices.

These cases involve possible misuse of the IMPAC card by 43 employees. Twenty-one of these cases are under development and three have been closed administratively.

But reviews involving improper use of government purchase cards are not new to my office. In two recent investigations we had involving this kind of conduct, a former employee was sentenced to 10 months in prison and ordered to pay over \$74,000 in restitution after pleading guilty to theft of government property. The employee made unauthorized purchases for laptop computers, digital cameras, and other electronic equipment using her government IMPAC card. She sold some items she purchased for cash and kept others for her personal use.

In carrying out her scheme, she altered invoices to disguise the purchases and forged the certifying official's signature on purchase requests and receiving reports.

In another case, a former employee was sentenced to 5 years' probation and ordered to pay \$6,400 in restitution after pleading guilty to embezzling government funds. This employee used her IMPAC card to rent a car for personal use.

After approximately 6 months of review, we found a number of procurement irregularities in the use of IMPAC cards within the department. Purchases have been made at clothing stores, cinemas, florists, food establishments, and other business places that are typically not considered authorized vendors. We are currently investigating these transactions to determine whether there is a legitimate business purpose.

A troubling result of our ongoing review was the conclusion that HHS has no centralized policy or guidelines for the many components and agencies within the department regarding the use of IMPAC purchases or the use of IMPAC checks. Consequently, purchase authorizations and oversight varies from component to component within the department, thereby presenting greater opportunity for inappropriate use.

We will be working with the department to determine what steps are necessary to insure better oversight of the IMPAC program. At a time when there are increased demands on the department's finite resources, ensuring integrity in the use of these cards is vital. This enables the department and its agencies to better serve the populations of our important programs for which they are intended, as well as ensuring taxpayer dollars are well spent.

Again, I appreciate the opportunity to appear before you today to discuss our work in this important area, and I will be happy to answer any questions.

[The prepared statement of Hon. Janet Rehnquist follows:]

PREPARED STATEMENT OF JANET REHNQUIST, INSPECTOR GENERAL, DEPARTMENT OF HEALTH AND HUMAN SERVICES

INTRODUCTION

Good morning, Mr. Chairman and Members of the Subcommittee. I am Janet Rehnquist, Inspector General for the Department of Health and Human Services (HHS). The mission of the Office of Inspector General (OIG) is to identify ways to improve HHS programs and operations and protect them against fraud, waste and abuse. We do this by conducting independent and objective audits, evaluations and investigations, which provide timely, useful and reliable information and advice to Department officials, the administration, the Congress and the public. In carrying out our mission, we work with the Department and its operating divisions, the Department of Justice (DOJ), other federal and state agencies, and the Congress to bring about improvements in HHS programs and operations and prosecute and/or recover funds from those who defraud the government.

I appreciate the opportunity to be part of today's discussion on the oversight and management of the government purchase card program and to tell you about the ongoing work of the HHS-OIG in reviewing how these cards are being used by HHS employees.

BACKGROUND

Approximately five years ago, HHS began using International Merchant Purchase Authorization Cards (IMPAC) to eliminate the cumbersome and costly use of procuring small purchases with purchase orders. IMPAC use streamlined Government purchases, reduced payment lead time, and reduced paperwork and administrative costs. The cardholders procure items for their respective components but are not personally billed. The credit card company is paid directly with the component's appropriated funds. HHS has approximately 7,500 IMPAC cardholders. A rough estimate is that \$151.7 million was spent using IMPAC cards during the six month period from January 2001 to June 2001.

OIG WORK INVOLVING IMPAC CARDS

The day after it became public that the Department of Education found fraudulent use of IMPAC cards by its employees, my Office of Investigations (OI) initiated a project to ascertain whether the IMPAC system was being misused within the Department of Health and Human Services. This review began in late June of 2001. I consider this review to be an essential part of the OIG's duties and responsibilities to oversee Departmental spending, and Secretary Thompson has asked me to expedite our review and work with the Department to improve the management of this program. The project is twofold: 1) an ongoing review of the purchases made by Departmental IMPAC cardholders and 2) a review of the IMPAC systems and procedures utilized by the Department.

The first part of this review is already underway. We began by obtaining billing information directly from U.S. Bank, the bank that issues and processes the IMPAC purchase cards. In addition to the credit card, the bank also processes IMPAC checks that are associated with the card. Due to U.S. Banks' electronic storage limitation, only two years of transaction data could be obtained initially. Our database presently consists of 1.5 million individual purchases, and OI continues to expand the material we are reviewing in that database with monthly data updates from U.S. Bank.

The electronic database currently includes all transactions made during the period from November 1999 through March 2002 by HHS employees with IMPAC cards. We are reviewing these transactions for unusual purchases made with the cards. Unusual transactions include purchases that do not appear to be business related or are for amounts much higher than the typical office expenditure.

The unusual transactions, along with a complete electronic copy of the cardholder's purchase history, are referred to the appropriate regional OI office for case development and investigation if appropriate. In many instances, the cases are referred back to the appropriate component to ask for supporting documentation before a further inquiry is made. To date, the OIG has made 24 referrals to its regional offices involving possible misuse of the IMPAC card by 43 employees. Twenty-one of these cases have been opened for further inquiry, and three have been closed administratively with no criminal activity uncovered.

RESULTS OF REVIEW

After approximately six months of review, we have found a number of procurement irregularities in the use of the IMPAC card within the Department. Purchases have been made at clothing stores, gas stations, transit authorities, cinemas, florists, toy stores, jewelry stores, food establishments (primarily grocery stores and restaurants), and other business establishments. We are currently investigating these transactions for possible misuse.

The review has also revealed that some cards were misused by HHS employees with their supervisors' approval. For example, travel expenses were charged to the card when they should be charged to official travel cards. Fees for individual memberships in professional organizations were charged to the card when employees should have paid out-of-pocket for these memberships. The card is also used to purchase food items and bottled water for some offices. Misuses of these types will be referred to the Secretary of HHS for appropriate administrative action.

A review of the electronic data also included a review of the use of IMPAC checks by some components within the department. We found that only some of the components within the Department use the IMPAC checks. The sole purpose of using these checks is to provide a form of payment to vendors who will not accept the IMPAC card. U.S. Bank charges a fee of 1.5 percent of the amount of the check for each check written. IMPAC checks from November 1999 through March 2002 total over \$13 million.

Our findings also indicate that checks are being written when the IMPAC credit card should have been used. Because of the 1.5 percent transaction fee, this type of misuse can cause taxpayers additional unnecessary expenses. The review identified instances where the checks were being used where a credit card would have been accepted.

We have also identified several instances in which IMPAC checks were written out to fellow employees of the cardholder or, in some instances, the cardholder themselves. The dollar amount and use of these checks raised questions as to the validity of the purchase, i.e., whether the purchases were business related or whether they were personal purchases.

In some instances, the checks are written as reimbursement for appropriate business purchases made by fellow employees. Purchasing items in this manner is an inappropriate use of the card. For example, one component allowed its employees to purchase steel-toed shoes for wear at work with the card. Each employee bought their own shoes and gave the receipt to the cardholder who reimbursed the employee with an IMPAC check. Since the purchases were made in this manner, the Government paid the additional bank fee of 1.5 percent as well as tax. These fees would not have been charged if the credit card would have been used. It also negated a possible discount arrangement with the vendor for bulk item purchases which could have resulted in additional savings for the Government.

A troubling result of our ongoing review was the realization that HHS has no centralized policy or guidelines for the many components within the Department regarding the use of IMPAC purchases or the use of IMPAC checks. Consequently, purchase authorizations and oversight varies from component to component within the Department, thereby presenting greater opportunity for inappropriate use. We will be working with the Department to determine what steps are necessary to ensure better oversight of the IMPAC program.

RESULTS OF PRIOR INVESTIGATIONS

Prior to our current review initiated in June of 2001, our files indicated at least two OI investigations involving similar conduct. A brief summary of these cases follows:

- A former administrative technician with the National Institutes of Health was sentenced to 10 months in prison followed by 3 years probation, ordered to pay \$74,140 in restitution, and fined \$100 after pleading guilty to theft of Government property. The employee made unauthorized purchases for laptop computers, digital cameras, and other electronic equipment using her Government IMPAC card. She sold some items she purchased for cash and kept others for her personal use. In carrying out her scheme, the former employee altered invoices to disguise the purchases and forged the certifying official's signature on purchase requests and receiving reports.
- A former procurement clerk with the Indian Health Service was sentenced to 5 years probation, 50 hours of community service, and ordered to pay \$6,450 in restitution after pleading guilty to embezzling Government funds. The employee used her IMPAC card to rent a car for personal use.

CONCLUSION

While our reviews are ongoing, we found that the IMPAC purchases we have reviewed thus far appear to be appropriate. However, our reviews have also shown there is the potential for improper use of IMPAC accounts. Some purchases indicate misuse or possible fraudulent actions, i.e., personal purchases, while others appear to violate the component's policies and guidelines.

We are pursuing allegations of fraudulent use of these cards for possible criminal prosecution. At the same time, we will be referring those that appear to be instances of mismanagement to the Secretary of HHS for review and appropriate administrative action. In order to continue to monitor this issue, we have incorporated these reviews into our workplan, and we will continue to obtain data updates from U.S. Bank on a monthly basis detailing all IMPAC expenditures.

Additionally, we found inconsistencies in the use of the IMPAC cards among Department components because of the lack of a centralized HHS policy with clear guidelines. Once both phases of our review are completed, we will be working with the Department to develop ways to improve, clarify and correct purchase procedures for the Department, and to help ensure these purchase tools are used properly.

My organization has been part of a broader review of this matter as a member of the President's Council on Integrity and Efficiency (PCIE) committee. We have had the opportunity to participate in the discussions and development of the guide currently under review by members of the Inspector General community, an important effort, which my colleague, Johnnie Frazier, is addressing today as part of this hearing.

At a time when there are increased demands on the Department's finite resources, ensuring precision in this method of Government procurement is vital. Resources not lost to waste, fraud and abuse enable the Department and its agencies to better serve the populations of our important programs for which they are intended as well as ensuring taxpayer dollars are well spent.

Again, I appreciate the opportunity to appear before you today to discuss our work in this important area. I look forward to continuing to work together with Secretary Thompson and the Congress to ensure the department's programs and operations serve the nation with integrity, efficiency and effectiveness.

I welcome your questions.

Mr. GREENWOOD. Thank you. Thank you very much, Ms. Rehnquist.

Let me begin questioning. Mr. Frazier, in your testimony you said the overwhelming number of Commerce and other Federal employees use their government cards responsibly. I think that is probably a true statement. I think also, given what we know about human nature, given the ease of these purchase cards, the use of these purchase cards, given the fact that there are so many items that are legitimately purchased by the government that are also attractive consumer items for employees, it seems to me that in order to insure that we have a very low rate of fraud we are going to have to have a very high rate of detection of fraud.

And so it would seem to me logical that if an employee was going to try to defraud the system, he probably would not be focusing on items that it would be hard to construe as a likely government vendor, and so to avoid the sort of unusual purchases screen. You do not go to Victoria's Secret unless you are really stupid.

On the other hand, you can buy laptops and cameras and rental cards and all kinds of things and not get caught up in that screen.

So my general question is: what do you think the likelihood is that if someone purchases some of these items for themselves that they will be caught?

Mr. FRAZIER. Mr. Chairman, I think you are right on the money in your concerns. Clearly, the first line of defense has to be the approving official. You have to almost make the assumption that people are going to be tempted to use the card on occasion, and I think that if you do not have the approving officials, which is often not

the first line supervisor, aware of the kinds of purchases that are being made, routinely reviewing every purchase that comes in, it is very possible for those abuses to occur.

Mr. GREENWOOD. Let's stop there for a second.

Mr. FRAZIER. Okay.

Mr. GREENWOOD. Let me ask any of the three of you to respond to these questions.

Do you have any sense as to what the frequency of those approving officials, in fact, reviewing every invoice is?

Mr. FRAZIER. They are supposed to review all of them. There is a monthly report that comes out that they are required to review and to reconcile the purchases with.

What we know, unfortunately, one of our big material systemic weaknesses is that people do not pay the kind of attention to that that they should.

Mr. GREENWOOD. So item No. 1 is that no purchase is ever supposed to be made on the purchase card that is not reviewed by someone other than the purchaser.

Mr. FRAZIER. That is right.

Mr. GREENWOOD. Okay. And that can fail if the reviewer falls down on the job.

Mr. FRAZIER. And we know for a fact that they do.

Mr. GREENWOOD. Okay. Well, let me ask this question. Can it not also fail if the reviewer is doing his or her level best to review the invoices, but has a difficult time knowing how legitimate the purchase is?

I think I have learned in this process that very frequently the reviewer is far afield, both physically in terms of the knowledge of the inner workings of the entity he is reviewing, and so if I am reviewing a purchase and I see two laptop computers, how do I know that was two for the agency or one for the agency and one for the employee's personal use?

Mr. FRAZIER. Well, there are a couple of problems that are going on there. One of the other big concerns is that if it is a laptop computer, for example, that is something that costs in the neighborhood of between, say, \$1,000 and \$2,000, and traditionally falls under the \$2,500 threshold that most agencies use to capitalize equipment and put it on their inventory.

We are very concerned that equipment like that does not show up on the inventory. It should, indeed, show up on the inventory.

So that if you do not have a process in place where purchases like that are monitored by your property officer or your inventory officer, those things can walk out just as easy as anything else, buying a package of pencils.

Mr. GREENWOOD. Any comments from the other two?

Mr. FRIEDMAN. Well, Mr. Chairman, one of the common threads in all of the successful investigations that we have had has been the fact that the monthly reconciliation by an independent party has not taken place.

Mr. GREENWOOD. Have there been any consequences for the person who is responsible for the review when fraud is detected and the reviewer just said, "Well, I did not get around to reviewing it"?

Have there been any consequences? Do the reviewers face any sanctions for doing a lousy job?

Mr. FRAZIER. I can address that very definitely. We have several cases where they have.

There are other cases where we are concerned that they have not. Traditionally we have gone after the card holder, but for the system to fail, it means that somebody else probably did not do their job.

Now, in all fairness, and I think one of the things you said in your opening comments, and I heard Greg and Janet both allude to the same point, and that is that most of our cases are made or brought to us because approving officials, when they discover a problem, they bring them forward.

You know, unfortunately there can be a delay of 30 days. People know how to work the system. In the case that we had at the Department of Commerce that you will hear about later on today the employee was able to spend \$50,000, she was able to do that basically in a 30 to 45-day period. She knew how the system works. She knew that the next report would not come out for 30 days. Then there is another 10-day lag before it gets in. And during that period she was able, if you will, to make sure that she did her misdeeds.

In another case, we found that the employee was able to hide the report from her supervisor. This was the employee who handled all of the monthly reports that came in. She would neglect to give her supervisor a copy of her report.

It was not until she was in an accident and somebody was sitting in for her that then they realized that something had been going on for some time.

Mr. GREENWOOD. Well, let me ask you all this. Do we have any way of knowing or having any idea how much fraud goes on?

I understand that we can use a screen of unusual purchases. I understand that if somebody turns somebody else in, we can find out. We can go ahead and prosecute, but if the question is do we have any way of having any idea how much fraud is perpetrated using these cards, what is the answer?

Mr. FRIEDMAN. The answer is I know of no way to give you a comprehensive analysis of that.

Mr. GREENWOOD. So we have no idea whether we are talking about hundreds of thousands or millions or tens of millions of dollars. We have no way of knowing that.

Mr. FRIEDMAN. Well, unfortunately, Mr. Chairman, to a large extent on the investigative side, as my colleagues have identified, we are reactive, and frequently I might add to their credit, the cases that have been brought to our attention have been brought to our attention by contractor officials and officials who are in the reviewing process. So that is a positive.

But there is no way of knowing comprehensively how much is out there that has not been brought to our attention.

Mr. GREENWOOD. Ms. Rehnquist, Mr. Frazier, would you like to answer that question?

Ms. REHNQUIST. I agree. I think that we could expend all of our resources, put all of our auditors and all of our investigators on this issue and probably give you a closer look than we are now, but I think that, you know, that is not something that is a cost-benefit analysis.

Mr. GREENWOOD. And I would not find fault here with the IG's Office. Where I am headed is we have a system in place right now in which we have no way of having a clue as to how much fraud is going on, and all of the auditors, all of the reviewers chasing all of the purchases will never get us there until we have a system that is considerably more foolproof than the system that we have.

Ms. REHNQUIST. I think that is right.

Mr. FRAZIER. I think that is an accurate statement, but what I also believe, Mr. Chairman, is that this is where the proactive activities will come into play. The fact that we are highlighting through hearings like this that people are being sent to jail for this.

Mr. GREENWOOD. Well, let me ask a question on that while I still have a second or two here. One of the things that we heard was that even in cases where there is clear fraud that has been identified, I mean, broke the law, then you have to go to the U.S. Attorney's Office and the Department of Justice and ask them to please prosecute this individual. And if the losses are in the 2,000, 5,000, \$10,000 range, they may, in fact, say it is not worth pursuing criminally.

So now I am an employee out there thinking I can probably beat the system if I do not buy something that is really outrageous. I probably will not get caught, and even if I do get caught, I probably will not get prosecuted.

That is a pretty thin line of resistance, it seems.

Mr. FRAZIER. I can assure you that an employee at the Department of Commerce that is investigated and found guilty, that that employee, if the U.S. Attorney's Office does not prosecute the case, that employee will no longer be a Department of Commerce employee. They have a mark against their record. It goes in their permanent file.

We surely would like to make sure that things are in place to make sure that they do not leave Commerce and go over to work in Energy, for example. And I think those are the kind of things that we can do.

But we have been fairly fortunate so far in that the Assistant U.S. Attorneys, I think, like you, like me are outraged about these kinds or problems and have taken on cases for as little as \$700, and often we have a difficult time getting them to pick up some of our major cases that involve even \$25,000.

But, again, I think that they clearly want to send the signal. One of the messages that we have received from the Assistant U.S. Attorneys is the question that you alluded to earlier, and that is that we think that you should not just go after some of the perpetrators, the individual cardholders. When you bring these cases to us and you know that someone was not doing their job, they are concerned sometimes about taking a case like that because they say you need to bring both people here. You need to bring the people who fell down on their job because if not, it may not have the jury appeal or you may not be able to get the conviction.

Mr. GREENWOOD. Well, it seems to me the issue is you have to separate that issue. There is the reviewer who is corrupt and complicit who needs to be prosecuted.

Mr. FRIEDMAN. Well, we will prosecute them.

Mr. GREENWOOD. Probably for every one of them there are 100 who are not corrupt, but they are just lazy, inept, overwhelmed, whatever it is and do not do the job, and their sanction should have to do with their ability to remain as an employee.

It would seem to me that if we find that someone stole \$50,000 while a reviewer was asleep at the switch, that reviewer should be looking for employment elsewhere as well.

Mr. FRAZIER. Well, they surely should be disciplined severely. One of the things that we are doing is to work with the agency to make sure that that happens.

You know, the managers traditionally see their primary job as the programmatic function. If they have got satellites that get launched or if they have Weather Service programs to run, they see that as their primary function.

What we want to encourage them to understand is that they have dual responsibilities. Management oversight of the government's resources is just as important as all of the other things that you have as a responsibility.

My favorite example, Mr. Chairman, is that of the head of the Weather Service. Obviously we can look at La Plata. This guy is very busy dealing with tornadoes, hurricanes, and others. You know, when we found problems at five of his Weather Service offices, he took those reports, sent them out to another 110 offices and said, "If the IG comes and finds these problems at your offices, you will not be there."

When we subsequently showed up at three other offices, there were no problems. And we are continuing our review. But you need people to understand that you have got this important programmatic responsibility, but you also have the responsibility of safeguarding the government's resources.

Mr. GREENWOOD. Thank you.

My time has expired. The gentleman, Mr. Stupak is recognized for 10 minutes.

Mr. STUPAK. Thank you, Mr. Chairman.

Mr. Frazier, it looks like the Department of Commerce has a fair amount of internal controls set up, right?

Mr. FRAZIER. They should have some more. I mean, they have a good number. We want them to have more.

Mr. STUPAK. Right. Is the reviewer, the person who reviews the purchases, is there some place higher up in the chain where that is reviewed at all?

Mr. FRAZIER. Well, one of things that the department has is that they have a centralized credit card office out in Kansas City, and they oversee the entire program. We have forged a working relationship with them. Maybe I should not say this publicly, but they have given us many leads.

Mr. STUPAK. But they do spot checking.

Mr. FRAZIER. They do spot checks, but at the same time, what they are is they are clearly an important control in this process.

Mr. STUPAK. The level is \$2,500 that you do not have to get prior authorization; is that right?

Mr. FRAZIER. Oh, no. In my office, you can set it differently. In my office, you know, if you are going to spend \$25, you are going to get prior approval. You know, managers have some discretion as

to how much they assign to a given office to a particular cardholder, and management has that discretion.

Mr. STUPAK. Okay. So management can set the level where they want it?

Mr. FRAZIER. That is right.

Mr. STUPAK. Okay. Well, did you testify that 2,500 was set by one?

Mr. FRAZIER. Well, the 2,500 was an example. What usually happens, the procurement regulations usually require you to go out and get competitive bids.

Mr. STUPAK. That is right.

Mr. FRAZIER. In other words, if you are going to spend more than \$2,500 on a computer, you should not just walk down to——

Mr. STUPAK. Well, 2,500 is just an example.

Mr. FRAZIER. Well, it is an example, but it is also a recognized example throughout the community that 2,500 is when you need to have competitive——

Mr. STUPAK. Well, let's just take the Department of Commerce. Does every agency or department therein have a different level?

Mr. FRAZIER. A different? I'm sorry.

Mr. STUPAK. Level of how much you can purchase without prior authorization?

Mr. FRAZIER. Well, you have to get authorization for everything over \$2,500, but an individual office can set that limit lower in practice.

Mr. STUPAK. Okay.

Mr. FRAZIER. They can set that limit lower.

Mr. STUPAK. The general requirement is \$2,500. If they need more than \$2,500, you have to get competitive bids and prior authorization.

Mr. FRAZIER. Yes.

Mr. STUPAK. Anything under that you can do anything you want. It depends on that department, agency, unit, whatever it might be.

Mr. FRAZIER. In that unit. In certain offices, we find in my office, for example, we have a process that whatever you are going to spend it has to be approved for whatever the amount. You have to have it approved in advance.

Mr. STUPAK. Right. Don't you think you should just have one level department-wide so that there is no question about it?

Mr. FRAZIER. Well, part of it is that you have to look at how the purchase cards are set up, I mean, and the purposes for which they are being used.

Mr. STUPAK. Right.

Mr. FRAZIER. It varies. I mean, they serve different purposes. You have certain offices where you have two people in the office. So the question is: do you have the time to run back every time you need to buy a box of pencils or do you want to go and get approval on that, you know?

That is probably not worth it. People have to make some judgment. It is not worth taking a senior official's time to get approval for \$25 purchases in certain cases.

Mr. STUPAK. So overall you feel in the Department of Commerce with your internal controls it is working fairly well in the Department of Commerce?

Mr. FRAZIER. What I feel is that they are working well, and we have identified a litany of things that we want done, and the department is working with us very willingly to implement those, to strengthen those controls.

Part of it has to be just to get the message out that people know that you take this seriously, that I take this seriously, and that the managers will take it seriously.

Mr. STUPAK. Okay. Mr. Friedman, the Department of Energy seems to be very far behind from what the Department of Commerce does in internal controls. Why is that?

Mr. FRIEDMAN. Well, I have not evaluated the internal controls of the Department of Commerce, but I rely upon whatever my friend, Mr. Frazier says.

There is a system of internal controls at the Department of Energy. It is somewhat more complex, and if you are familiar with how DOE is organized, Mr. Stupak, the vast majority of work at the Department of Energy, including our nuclear weapons work, our research laboratories——

Mr. STUPAK. Contractors.

Mr. FRIEDMAN. [continuing] are contractor operated. So of the 14,000, we know of 14,000 current cardholders in the department.

Mr. STUPAK. Right.

Mr. FRIEDMAN. Of the 14,000, approximately 11,700 are contractor employees. The rest, about 2,300, are Federal employees. So the situation is somewhat more complex.

Mr. STUPAK. Well, has anyone ever checked the regulations to see if it is even appropriate to have private individuals have government credit cards who are contractors and not government employees?

Mr. FRIEDMAN. Well, these are not part per se of the Smart Pay program, but the department has authorized them to create their own programs.

Mr. STUPAK. Sure, but has anyone ever checked to see if that is legal? I am trying to look at first things first.

Mr. FRIEDMAN. I have not checked.

Mr. STUPAK. So we do not even know if that is proper under——

Mr. FRIEDMAN. Well, my assumption is somebody has checked, and it is appropriate, but I have not checked personally.

Mr. STUPAK. You know what happens when you sue them.

Mr. FRIEDMAN. What?

Mr. STUPAK. Nothing.

So we have got 8,000 contractors. How much a year does the Department of Energy run up on credit cards?

Mr. FRIEDMAN. Well, this is part of the problem. We do not know. On the Smart Pay portion, it is between \$200 million and a quarter of a billion a year. The contractor portion, we just do not know the number. We have never accumulated it and collected it. The department has not, and I think that is a problem.

Mr. STUPAK. So when we get to the Department of Energy, we do not have any kind of idea what is going on there?

Mr. FRIEDMAN. I certainly do not. I know we can convey what we have been told with regard to the Smart Pay Program, but limit it to the Smart Pay Program.

Mr. STUPAK. Okay. Well, is there going to be a review of these 8,000 contract credit cards?

Mr. FRIEDMAN. Well, actually the majority of the cases that we have investigated and the audits that we have done have been of the contractor purchases under their Purchase Card Programs.

Mr. STUPAK. And what have you found?

Mr. FRIEDMAN. Well, we have found we have had six—I indicated in my opening statement the number of convictions, fines and recoveries have been fairly significant, but in the context of the overall amount of money that is being spent, it is not all that large, to be frank with you.

Mr. STUPAK. Pardon?

Mr. FRIEDMAN. In the context of the billions of dollars that are being expended annually, it is not a huge number.

Mr. STUPAK. But there has not been an audit.

Mr. FRIEDMAN. I am sorry?

Mr. STUPAK. But there has not been an audit. I mean, you have a couple, but you really have not gone through and done a complete audit of these 8,000 or you have done some, some that have been brought to your attention, right?

Mr. FRIEDMAN. No.

Mr. STUPAK. Go ahead.

Mr. FRIEDMAN. I am sorry. On the investigative side, we are primarily reactive, instances that have been brought to our attention. Those have been mostly in the contractor arena.

On the audit side, we have initiated audits on our own. For example, as I indicated in my opening statement, we are currently auditing the credit card program of Sandia National Laboratory.

Mr. STUPAK. Right.

Mr. FRIEDMAN. So that is one example.

As a stem to stern review, the answer is no.

Mr. STUPAK. And when is Sandia going to be done?

Mr. FRIEDMAN. It should be done shortly.

Mr. STUPAK. Okay. How long have they been giving credit cards to private contractors? Do you know that?

Mr. FRIEDMAN. Well, certainly since 1998, but I think it goes beyond that as well.

Mr. STUPAK. Before that, right?

Mr. FRIEDMAN. Yes.

Mr. STUPAK. How long back do you have to look at the records? I mean, do you have to keep your records from the first purchase to 2002?

Mr. FRIEDMAN. Well, generally the contracts are five- year contracts. I do not know precisely what the records retention responsibilities are in each contract. It may vary by contract, but certainly for the term of the contract at the closeout you would have to have all of those records.

Mr. STUPAK. And they are turned over to DOE?

Mr. FRIEDMAN. I am sorry?

Mr. STUPAK. They would be turned over to DOE?

Mr. FRIEDMAN. Well, they are DOE's records. We own them.

Mr. STUPAK. All right. And, Ms. Rehnquist, the HHS, just in June 2001 they started their review?

Ms. REHNQUIST. That is when we started reviewing every transaction that goes through.

Mr. STUPAK. Right. So before 2001 there was no review?

Ms. REHNQUIST. There were the couple of criminal cases and the couple of serious fraud cases.

Mr. STUPAK. Do you have an authorization level, Mr. Friedman, at DOE that you do not need any authorization? Is there a level, \$2,500?

Mr. FRIEDMAN. No. Similar to the situation at Commerce, it varies. It is all over the place.

Mr. STUPAK. Is that the same at HHS?

Ms. REHNQUIST. Yes.

Mr. STUPAK. Okay. Give me an impression of what type of employees in DOE would have a credit card. I am talking about employees now.

You cannot be an entry level person and get a credit card, can you?

Mr. FRIEDMAN. Entry level?

Mr. STUPAK. Yes.

Mr. FRIEDMAN. Yes. I mean, I do not know how you define entry level, but these are people who are responsible for making day to day acquisitions generally at a lower dollar threshold. So it could very well be a senior secretary, a senior management assistant.

Mr. STUPAK. And then their supervisor is supposed to review it.

Mr. FRIEDMAN. Well, there is a supervisory chain that is supposed to review the purchase, yes. And you reconcile it to the inventory records, which is the most important point, which I think is what Mr. Frazier was alluding to in response to Mr. Greenwood's question earlier.

Mr. STUPAK. Right, and then after that review in DOE, you work with the credit card company like Commerce?

Mr. FRIEDMAN. Well, the problem is the common thread in all of the cases that we have reviewed has been that the supervisory review did not take place.

Mr. STUPAK. And in the ones that you have reviewed, the supervisor has not or the review has not taken place you said.

Mr. FRIEDMAN. That is correct. The investigations that we have done, that is correct.

Mr. STUPAK. Right. Just the investigations.

Mr. FRIEDMAN. Yes.

Mr. GREENWOOD. The time of the gentleman has expired.

The Chair recognizes the gentleman from New Hampshire, Mr. Bass, for 10 minutes.

Mr. BASS. Thank you very much, Mr. Chairman.

What process is in place to follow up with the various audited divisions to see if the identified weaknesses have or are being corrected that you discussed in your testimony?

Mr. FRAZIER. Mr. Bass, we have a process that we issue our report in final. We get the agency's comments in in response to our findings. Within 30 days, they have to give us a detailed report.

They then are required to report back to us until those issues are fully addressed. We then, also in the case of credit cards, we send copies of our reports to the Office of the Secretary, which has responsibility for monitoring the entire program throughout the de-

partment. They get copies of that and have responsibility to look for, again, the cross-cutting issues and the systemic problems.

We then will go back and periodically follow up in situations where we actually think that there was a major problem, you know, just to verify and confirm that the people are doing exactly what they have reported that they are doing.

Mr. BASS. Mr. Friedman?

Mr. FRIEDMAN. Mr. Bass, we have a very similar system. As I indicated, again, in my opening statement, we currently have a proactive investigative review ongoing department-wide which will follow up on many of the issues that we have discussed today, and we also have an ongoing audit at the Sandia National Laboratories.

Ms. REHNQUIST. Mr. Bass, we have the same procedure for reports, but I do not have an outstanding audit report to the agency on this. What we do is an automatic data dump, if you will, from U.S. Bank so that my office actually is responsible for reviewing the transactions at this time.

I would like to transfer that back to the components and have them do the initial cut, but what we are going to do is work with the department now. We are collecting the different policies and procedures within the department—each agency has a different set of guidelines that they use—collect those, and on the basis of Director Daniels' memorandum, put some unifying policies in place for the entire department.

Mr. BASS. So for the first two, basically you have a 60 to 90-day. You sort of put the account on probation, and you have more stringent reporting requirements. You send the information to the top, to the Secretary.

Mr. FRAZIER. To the Office of the Secretary, not to the Secretary.

Mr. BASS. I understand that, and then anything else, that is it. What happens if you identify miscreants?

Mr. FRAZIER. Well, see, that is a whole different set. In other words, if we find someone who has misused the card for personal use, that is a whole separate process. Those folks are going to be disciplined. They're going to be either fired; they're going to be forced to resign. They're going to be disciplined, and so that's a different one.

Then what we will do is to try and go in to look at the internal controls that allowed that situation to happen. In other words, you have to learn from these relatively few cases of misuse and abuse. You have to learn how do we fix the process. How do we fix the system to preclude those kinds of things from happening on a regular basis?

And I think even more important than what we do is just to get managers to understand just how important this is so they will take those findings and those reports and those recommendations and try and implement them on a larger scale.

We have 6,000 cardholders in the Department of Commerce. We are never going to audit or investigate all 6,000 of those, but what can happen is that if we get managers to put in place the kinds of safeguards and controls, we can get managers to go out and do reviews, the same kind of reviews that we are going to do.

When we issue this guide that the IG community is working on, I plan to make that guide available to anybody in the department

who wants it. They can use, you know. That is not something that is rocket science. They can take that document——

Mr. BASS. I just want to understand the process. An audit is conducted. Some audits may turn out okay, others perhaps not. You discover in the course of an audit that there may be a problem with a specific agency.

So what you do is you notify the agency head that there is an issue. There are some issues here. There may be some individuals that are going to be disciplined in some form or another, and from this point forward, this particular agency is going to be subject to more stringent reporting requirements, 60 to 90-day at least once to report back.

Mr. FRAZIER. Let me correct that. Not just once. In other words, until we believe that the recommendations have been implemented, it is every 6 months until each and every recommendation is closed, is the word that we use.

Mr. BASS. Okay.

Mr. FRAZIER. So in other words, it is not a matter of you telling us, you know, one time after 60 days and then we go away. Quite the contrary, until it is closed and we are comfortable that you have implemented that, that recommendation stays in an audit control system.

Mr. BASS. Okay. That is fine.

You made reference to, "relatively few." I apologize for not reading your testimony. When you say "relatively few," what are you talking about?

Mr. FRAZIER. Relatively few criminal cases that we have investigated.

Mr. BASS. How about relatively few transgressions versus investigations? Is there a difference? Do you understand what I am saying?

Mr. FRAZIER. No, not really.

Mr. BASS. Are there instances where some problems may pop up and an audit does not necessarily lead to a criminal disciplinary action?

Mr. FRAZIER. Yes. That is the overwhelming number of cases. In fact, most of them are audits. We do lots of audits, and we find lots of problems in the audit area in terms of internal control weaknesses. We seldom find even through those audits where people have used those cards for personal gain.

Mr. BASS. So an internal control weakness, that is basically improper reported information even though it was perfectly okay. The charge itself, for example, was okay, but it did not look right even though it was actually fine versus he or she did not get caught, and it is not justifiable to prosecute.

Do you understand the subtle difference here?

Mr. FRAZIER. There can be subtle differences. In fact, one of the things that we do, we have learned to try and target certain things. We will look, and for example, if we see purchases at a hotel, if you see something at the Willard Hotel which is across the street from the Commerce Department, we say, "We have got you."

You know, but then you find out that there is something called a Cash in a Flash Program that you can reward people with a spe-

cial purchase, a gift certificate, and you can do that as an award. So you can give a \$50 gift certificate.

Mr. BASS. Okay.

Mr. FRAZIER. What the sheet would show is somebody would use \$50 to buy something at the Willard Hotel. We think that sends up a flag, as it should, but once we look into it, you can sometimes find that there can be legitimate, acceptable reasons that those purchases were made.

Mr. BASS. Fine. One last question. Are any of you in a position to comment as to whether or not you think that the deterrence factor is strong enough? I.e., a Federal Government employee strongly enough educated to the consequences of improper use of government issued credit cards, or is it the feeling—maybe in your opinion this is too subjective—that most people believe it really is not going to make much difference? It is going to be very, very hard to prosecute.

Is that a problem? Is it within the scope of your ability to comment on that?

Mr. FRAZIER. The disciplinary?

Mr. BASS. Yes.

Mr. FRAZIER. I'll step out of the Commerce IG role for just a second and speak from the standpoint of the President's Council on Integrity and Efficiency. We have a round table group that has been dealing with this issue, comparing lessons learned, talking about some of the experiences that our own agencies have experienced.

And one of the things that we have, we have some people who will not take a government credit card, a purchase card, do not want that responsibility because they are fearful that it is going to be something that is going to give them problems even if they try and do everything right.

So I do think in many agencies that the message is getting out. Other people, IGs I know are issuing—we are going to still this practice—issuing what they call IG alerts where every time you convict someone, you circulate that on the Internet throughout our department, and when people see that, they say, "Wait a minute. This woman spent \$700 and she got fired and she is doing 6 months in jail?"

That gets people's attention. My No. 1 thing, you stop it with very strong disciplinary action, and people get the message.

Mr. BASS. Any other comments from either of you?

Ms. REHNQUIST. I agree with that.

Mr. BASS. Thank you, Mr. Chairman.

Mr. GREENWOOD. The Chair thanks the gentleman and recognizes the Ranking Member, Mr. Deutsch, for 10 minutes.

Mr. DEUTSCH. Thank you.

The General Services Administration has stated in its testimony that almost \$14 billion in purchases are made every year through these purchase credit cards, and that the savings to the government by using them is \$1.3 billion. This is an enormous savings.

How does the amount of fraud and abuse of these cards compare to the savings? Can you quantify the amount?

Mr. FRIEDMAN. With regard to the Department of Energy, Mr. Deutsch, I do not have such a number and I do not know of a num-

ber collectively throughout the entire government. I am not sure how you would gauge it, frankly.

Mr. DEUTSCH. Mr. Frazier?

Mr. FRAZIER. Yes, I think that Mr. Friedman is right on the money. I think the fact that it has our attention now, and I think it is getting the attention of the senior managers and hopefully that number, the amount of fraud, will continue to go down.

We know what we know and we do not know what we do not know. And that is a concern, you know, but again, I think that this is where the deterrence factor has to be beefed up. This is where the proactive kinds of measures that we are all talking about have to be put in place. This is where strong internal controls will make the difference.

We identified some very positive aspects. Our overseas operations department has commercial operations in 60-some countries overseas. They are starting to use the credit cards, and we know that that makes a difference because when they were processing things through their normal chain and through the embassy, there were taxes that were put on it. There were fees that were paid.

So we go in and look at those, and so there are some other savings that accrue as a result of the program. But to say that the level of fraud would be something that anybody will ever give you a definite or definitive number, you know—

Mr. DEUTSCH. Is that part of the attempt to be more moderate and to actually get a cost-benefit analysis in terms of the problems? I mean, if with the additional monitoring would you come back here in 6 months or 12 months and we ask you that question again, would you be able to, you know, create a number in terms of the actual down side?

Mr. FRAZIER. Not one that I probably would ever be comfortable with, you know.

Mr. DEUTSCH. Even a ballpark number?

Mr. FRAZIER. It would be difficult because, again, you know, I would like to think that we are doing a great job in catching lots of the abusers, and I feel that we are. But I know, again, you know, you cannot ever be sure.

And as soon as I tell you that we have got most of the abusers out of the system, you know, something will happen and there will be 25 people at one time, you know, but God forbid that happens.

Mr. DEUTSCH. Mr. Frazier, in the prepared testimony for today's hearing, the Commerce Department has stated that it has identified fraud and abuse that has totaled one-hundredth of 1 percent or one-ten thousandths of all credit card purchases made in the last 5 years. That represents just \$64,000 over half a billion dollars in purchases.

The Commerce Department appears to have the most thorough control programs of all the agencies. Do you think this accurately measures the extent of credit card fraud and abuse at Commerce?

Mr. FRAZIER. Well—

Mr. DEUTSCH. And let me just mention that 64,000 number is in Mr. Sade's testimony on page 9.

Mr. FRAZIER. I will leave that to Mr. Sade to defend that number. We can get more than \$64,000 ourselves.

Having said that, that is what we know about. And, again, it goes to the same question that you have raised earlier. You know, you never know what you do not know. Again, what you do is—in other words, that which we catch, that which gets reported is what we can report to you, and we feel comfortable with those figures.

One of the things I have asked my auditors and people who are now doing this work, if we find that someone took \$50,000, you can make an assumption that maybe they took more. So you try and go back, you know, and find out how long the problem has been going on.

You know, you don't know what you have missed, and again, you go on faith to a great extent, but that is why I think that the controls are absolutely critical to prevent the problem.

Mr. DEUTSCH. Could you compare that number or also your process with what is done in private industry?

Mr. FRAZIER. No, but what we did do is part of the PCIE effort in working with this guide. We have looked at certain private organizations to try and get a sense as to what they are doing. We have spoken with officials from the Bank of America. We have spoken with officials from some CitiCorp and other banks and other corporations.

I met with my brother-in-law recently. He has a major credit card with his company, and to talk about the kind of things that they do, the one point that he emphasizes, they give him a great deal of latitude. They all have American Express cards, and they can even charge business things and personal things on the same card, and then you differentiate when you get ready to make the claim.

He said if you make one mistake, if you put one personal charge on there, you are fired immediately. So I think that, you know, this is the message. Again, it is prevention. When people know that they are going to be fired for an indiscretion like that, they get the message fairly quickly.

And, again, that is what I am hoping we will be able to convey to Commerce employees and, I think, throughout the government.

Mr. DEUTSCH. Mr. Friedman and Ms. Rehnquist, if you could respond, do you think your agencies have comparable numbers that I quoted for Commerce just in terms of the actual dollar amounts? I mean, would you be able to generate those kinds of numbers?

Mr. FRIEDMAN. I could give you the number we have reported in our documents, Mr. Deutsch, but I do not believe there is a collective number.

Mr. DEUTSCH. Ms. Rehnquist?

Ms. REHNQUIST. No, I do not believe there is a collective number either at HHS.

Mr. DEUTSCH. What would the greatest vulnerabilities in your agencies be in terms of the fraud we are talking about? And specifically, the vulnerabilities that you have set out, I mean, where are you specifically looking at in terms of, you know, trying to make some changes?

Mr. FRAZIER. The role of the approving officials.

Mr. DEUTSCH. So you keep coming back to the approving official.

Mr. FRAZIER. Oh, yes. I think that that is one of the very key things. The fact of securing bank cards, the fact of looking for people who split purchases to get around procurement limits; the notion of getting somebody else to review the report, having somebody to make sure that those major purchases get put on inventory records so that when an employee walks out of the door, that he or she can take an expensive piece of equipment that they have purchased because nobody else knew that they had purchased it.

I mean there are just a litany of areas that we think can be addressed.

Mr. DEUTSCH. Are those pretty much the same things at both of your agencies that you are recommending as well?

Mr. FRIEDMAN. Yes.

Mr. DEUTSCH. Or that you are recommending to your agency?

Mr. FRIEDMAN. Well, the common thread, Mr. Deutsch, the problems we have found deal with the supervisory review, reconciliation, and reconciliation with the inventory as well.

You know, one of the obvious objectives here, and I do not mean to make this sound biblical, is this is a difficult balancing act. We want to have a stringent, effective set of safeguards or internal controls, but they cannot be so onerous and so prescriptive as to undermine the entire program.

That is the difficult balance that we are shooting for in working with our respective departments, and that is the difficult balance that we are trying to seek.

Mr. DEUTSCH. Ms. Rehnquist, did you want to add anything?

Ms. REHNQUIST. In addition to what Mr. Frazier and Mr. Friedman said, I mean, the thing that I would like to see probably primarily at HHS is the centralization of the controls. Unless there is a really good reason for the Indian Health Service to have a different policy than CMS, I would really like to see one set of procedures and controls that would guide supervisors on how to use these cards.

Mr. DEUTSCH. My last question just deals with the response of the agencies to the recommendations that you have just talked about and what has been the response? You know, if you can, give us an update of that.

Mr. FRAZIER. Yes, I could not be happier, and I think it is, in large measure, because of the attention that the Congress is putting on this, the emphasis that OMB is now putting on this, and that the Deputy Secretary and the CFO realize that this is the kind of thing that will give not only the department, but government workers a bad image.

And as a result, they are being quite responsive. I mean, we have action plans in response to every one of our reports thus far, and in fact, what we have had now is that we have had managers who are asking us to come in and look at specific operations. They are concerned, and they want us to go in.

You cannot go in and look at all of them, but if a manager is concerned, we surely will make that one of our priority candidates.

Mr. DEUTSCH. Would you like to respond in terms of your agencies?

Mr. FRIEDMAN. Well, we have had a very, very similar reaction. I have spoken both to the Secretary and to the Deputy Secretary

and to the CFO in this matter, and they are taking it very seriously. In fact, appended to our February 2002 lessons learned report is the response from the department's Chief Financial Officer.

And I think it is a comprehensive, complete proposal to try to address these issues, and I give him a great deal of credit for that. The implementation will be the key.

Ms. REHNQUIST. Right. This is something that Secretary Thompson takes very, very seriously, too, and has asked me to expedite our work so that we can get back to them and proceed with better management controls.

Mr. STUPAK. Excuse me for 1 second. Would you yield for 30 seconds?

Mr. GREENWOOD. Very briefly.

Mr. STUPAK. You all had guidelines when you started this program, right? And it seems like your controls are under development as you are going along here.

Commerce had a pilot program first, first?

Mr. FRAZIER. Back in 1986, I believe, yeah, because they have been involved in the program for 15 years.

Mr. STUPAK. Then at the end of that program were other agencies given the opportunity then or departments given the opportunity to use the credit card after your pilot program?

Mr. FRAZIER. I do not—

Mr. STUPAK. Excuse me. Why didn't your—what I am trying to get at: why didn't your controls go with the extension of credit cards to other departments?

Mr. FRAZIER. One of the things that you will find is that there is often not a shortage of controls and prescribed good practices. It is how those practices and controls are implemented because even today, you know, I can identify a number of things that can be put in place to strengthen the program, to better safeguard it.

So I think that what we find, and I think you have heard Ms. Rehnquist and Mr. Friedman say the same thing; it is a matter of getting people to comply. It is getting people's attention now.

So I am hopeful that you will see a decline. You will see a decline in the numbers of people who have cards at Commerce and at other agencies. You see lots of people who had cards that do not need those cards. Those cards are being taken away.

Mr. STUPAK. Thank you, Mr. Chairman.

Thank you, Mr. Deutsch.

Mr. GREENWOOD. The Chair, as always, welcomes the presence of the chairman of the full committee, Mr. Tauzin, and recognizes him for 10 minutes or so much of that as he chooses to consume.

Chairman TAUZIN. Thank you very much, Mr. Chairman.

Let me thank you all for coming to help us understand both the opportunities and problems of using credit cards within the Federal system.

Let me, first of all, focus on some of the abuses, some of the fraud your audit work has uncovered. I was going through your statements and noted that in some cases people misused the card to the tune of \$85,000 or \$113,000, pretty big numbers, which is a lot of personal items.

And in other cases, Ms. Rehnquist, you were talking about the use of credit cards to buy individual memberships in professional

organizations that clearly should have been out-of-pocket expenses of the holders of the card, et cetera.

I am trying to understand how this could happen in a system and go so far before it is caught. I understand human nature. Some people are going to do things like that and particularly when they have the assistance of the vendors, as in one case you pointed out. The vendor was covering up the personal acquisitions by altering the invoices.

That is just theft, and that could occur even with any other system.

But recognizing all of that, normally when those of us who use credit cards, and most Americans do, make extraordinary purchases, we get a call from the credit card company. When there is an extraordinary amount or when the charge is at an extraordinary place, they do so as part of their security to make sure that their card members are not literally being charged for charges that they really did not make.

So somebody has some software equipment somewhere that can identify aberrations in card use, spot it early, and at least make inquiries about it.

And so the question I want to ask you is: do your departments and your audit functions use software tracking of acquisitions made under credit cards which have the capacity to identify aberrations in use? Any one of you.

Ms. REHNQUIST. Well, Mr. Tauzin, we do have that software. We have that data base up and running now. We have about, I think, 1.5 million transactions in the data base, and now we review the data directly from U.S. Bank, who issues IMPAC cards at HHS on a monthly basis with only about a 30-day lag time.

So we see the transactions now in real time, and it does allow us to identify those transactions that are either of really high dollar amount or from a vendor that you would not expect as—

Chairman TAUZIN. Well, how did the guy get \$85,000 worth of charges for televisions and God knows what else for his personal use without the software finding that?

Ms. REHNQUIST. Well, we find it.

Chairman TAUZIN. What I am saying is why can't the software identify these aberrations when they occur and as they occur before it gets to 85,000, before you have got a big criminal case on your hands.

Ms. REHNQUIST. I guess if you are really intent on committing fraud, you are going to stage it so that you are flying under radar for a while, and it would really only be after a cumulative effort that an analyst sees, okay, this is maybe not an extraordinary amount of money, but it is an unauthorized vendor.

Chairman TAUZIN. Well, Mr. Frazier, you pointed out that in the Alaska regional office deficiencies that were cited as bank card activity were never reviewed by the contracting office head.

Mr. FRAZIER. Yes.

Chairman TAUZIN. How do you explain that?

Mr. FRAZIER. There is no explanation for that.

Chairman TAUZIN. No good one, right?

Mr. FRAZIER. It is unacceptable, and again, we keep coming back to the same thing. The same software that you are talking about

is available to all of the approving officials, to the agency representatives.

Chairman TAUZIN. Do they use it?

Mr. FRAZIER. The department uses it. The people out in Kansas City that run the bank card program surely get it, and they are sharing that information with us now. But I am certain that they must share it with the department because they work for the department.

Chairman TAUZIN. Well, Mr. Friedman, let's talk about your department, the Department of Energy here. The number of contractor employees who hold purchase cards far outnumber the number in the Department of Energy as regular Federal employees.

Mr. FRIEDMAN. That is correct.

Chairman TAUZIN. Tell me. What is the situation with the contractor employee holding a credit card? Are they charging directly against the Federal Treasury?

Mr. FRIEDMAN. In most cases they are, yes.

Chairman TAUZIN. How does that happen?

Mr. FRIEDMAN. Through a letter of credit, which is the standard Department of Energy management operating—

Chairman TAUZIN. If I am a contractor with the Department of Energy, my employees can charge directly against the Federal Treasury?

Mr. FRIEDMAN. In essence, that is the case, yes.

Chairman TAUZIN. Well, why do we permit that?

Mr. FRIEDMAN. Well, that is the whole underpinning, Mr. Tauzin, of the department's managing and operating contractor concept, which frankly goes back to the Manhattan Project days.

Chairman TAUZIN. But wouldn't it be better if the employees were answerable to their contractor, their boss, that he then makes whatever payment, claims against the government that he can legitimize as legitimate payments?

Aren't you skipping a level of responsibility when you do that?

Mr. FRIEDMAN. Let me be clear on this, if I can.

Chairman TAUZIN. Please do.

Mr. FRIEDMAN. Because it is a very complex situation. There are multiple programs, and they are handled differently. So I am not speaking—

Chairman TAUZIN. About all of them.

Mr. FRIEDMAN. You cannot generalize about all of the programs.

What has happened in the case that we have investigated is that the contractors have, in fact, been held accountable for the errant purchases of their employees and have, in most cases, reimbursed the government for those losses.

But if I can go back to your earlier question, which I think is a very important point, the two biggest cases that we have had, the two biggest investigative cases in terms of the loss. One was a fraud that took place over 47 months, and the other took place over 13 months.

So as Janet Rehnquist suggested, and she is quite correct, these people, many of them are very clever. They spread the purchases over a long period of time.

Chairman TAUZIN. Well, but also, 6 out of 7 of the closed fraud cases were contract employees.

Mr. FRIEDMAN. That is absolutely correct.

Chairman TAUZIN. You know, I am just looking for where a problem exists. Those statistics certainly point me in the direction of contract employees.

Mr. FRIEDMAN. I agree with you completely.

Chairman TAUZIN. And credit cards and charging against the American taxpayer without the contractor being responsible in between, except perhaps afterwards in liability.

Mr. FRIEDMAN. Well, they are responsible.

Chairman TAUZIN. How?

Mr. FRIEDMAN. The Justice Department has made—

Chairman TAUZIN. Is the contractor required to have these software programs in to check the activities of their employees?

Mr. FRIEDMAN. Again, we are talking about 30 or 40 different contracts here.

Chairman TAUZIN. I understand.

Mr. FRIEDMAN. You have to look in terms of every contract.

Chairman TAUZIN. We have got 11,700 people holding credit cards as contractor employees. That is a lot of people with a lot of purchasing power, and all I am asking is: are the contractors and their contracts or the department required to have some audit control, such as software programs, to track the purchases over 47 months?

Mr. FRIEDMAN. Absolutely.

Chairman TAUZIN. They are required?

Mr. FRIEDMAN. Absolutely.

Chairman TAUZIN. Every one.

Mr. FRIEDMAN. Now, I am not here defending the status quo, Mr. Tauzin.

Chairman TAUZIN. I do not have you on the docket.

Mr. FRIEDMAN. No, I appreciate that, but what I am saying is that the contractors are only allowed to incur and only to be reimbursed for allowable costs, and these costs are not allowable costs by any stretch of the imagination.

Chairman TAUZIN. But you understand my concern.

Mr. FRIEDMAN. I absolutely do.

Chairman TAUZIN. My concern is that when the number of contractor employees far outweighs the number of Federal employees who are subject to the ethics law, all kinds of different rules that a contract employee might be subject to, I think, when the number far exceeds it and six out of seven of the completed fraud cases fall into that category, that seems to tell me, and I hope it tells you, that it is an area where we probably ought to focus on making some reforms and some changes in the way these responsibility lines are drawn and how these cards are used. It seems to point this committee at least in that direction.

Doesn't it point you in that direction as well?

Mr. FRIEDMAN. Absolutely, but it is not entirely inconsistent with the proportion of feds. to the government contractors in the Department of Energy. So it is not entirely surprising.

We have about 110,000 committed and management operating contractor employees working for the department of energy, man-

aging the laboratory systems, the nuclear weapons programs, et cetera, and about 14,000 feds.

Chairman TAUZIN. Well, tell us what the difference is in terms of the legal responsibilities of the contract employee and a Federal employee. Is one subject to more oversight, liability, responsibility, ethics laws? Are they both equally responsible?

Mr. FRIEDMAN. Well, no. That is a very difficult question to answer. I am not a lawyer, in this short period of time.

Chairman TAUZIN. Yes.

Mr. FRIEDMAN. Obviously there are unusual and more stringent ethics requirements on Federal employees than on most contractor employees.

Chairman TAUZIN. That would be my guess.

Mr. FRIEDMAN. However, it is quite clear that the contractors ultimately are responsible for the actions of their employees.

Chairman TAUZIN. I am sure that is true, but if the responsibilities of the individual employees of the Federal Government are much more clearly defined and much more stringent when it comes to misusing a Federal credit card, it directly involves the Treasury of the United States and the taxpayer of this country.

It seems to me that if contract employees far outnumber the Federal employees in the department who are using these cards, are not subject to the same or identical or as strict obligations, that the structure under which those people use those cards ought to be stricter, ought to be more tightly controlled, ought to be perhaps more consistently audited, even more so than the Federal employee.

Now, if that is true, does that occur?

Mr. FRIEDMAN. I cannot speak for every one of the contracts. I do not know the answer.

Chairman TAUZIN. I know you cannot. That is the problem, you see. We can call you up as a Federal employee, as someone responsible for the taxpayers of this country, and you can tell us everything the department does regarding your employees. But you cannot speak for the contractor, and that is our problem, you see.

If the contractor is in control of these employees, and these employees, 6 out of 7—that is a huge percentage—are responsible for these frauds, do you get my drift?

It seems to me that the department has a much higher duty, responsibility to call these contractors in and set up some new procedures for them.

Mr. FRIEDMAN. I absolutely accept that and agree with you.

Chairman TAUZIN. Thank you very much.

One final thought, Mr. Chairman, that I want to understand. How big is the problem? There is credit card fraud obviously in every state, every jurisdiction. How big is it within the Federal Government?

Is it so big that we ought to pay an awful lot of attention at this committee level in uprooting it and working with you to find it and set up better systems?

Is it normal? Is there such a thing as normal? Is it minuscule? Characterize it for me.

Mr. FRIEDMAN. I honestly wish I could. I cannot.

Chairman TAUZIN. You cannot?

Mr. FRIEDMAN. No, I cannot.

Chairman TAUZIN. That is frightening.

Can any one of you? Ms. Rehnquist, Mr. Frazier? Can you characterize it for me?

Mr. FRAZIER. You know, I would like to think that in the scheme of things it is relatively small, but again, as we discussed today, it is very difficult to say with—

Chairman TAUZIN. But you are not sure.

Mr. FRAZIER. [continuing] certainty as to, you know, the magnitude of the problem.

We know what we know, but what we do not know we should be looking very diligently to see how pervasive it is. And I think that if there is one message that has been conveyed by the subcommittee here today, it is one that I think that the IG community surely has embraced, and that is that this is a serious issue. It is one that we are going to be looking for.

I would like to think that in a year or 6 months when we come back that we would be in a position to give you some greater assurances that in our own individual departments things are in better shape. I would like to think that to be the case.

Whether we can ever give you a very definitive number that says only 3 percent of the cases or one half of 1 percent, I do not think that anybody will ever come up with those numbers.

Chairman TAUZIN. Ms. Rehnquist, obviously coming to our committee later on telling us you have got the problem cured would be very nice.

Mr. FRAZIER. Yes.

Chairman TAUZIN. If you would just come in and tell us how big it is would be good for a start. Do you know how big it is?

Ms. REHNQUIST. No. No, I do not.

Chairman TAUZIN. See, that is our concern. We do not even know how big and pervasive it is. And that should be a red flag for all of you in terms of making sure that we have better systems in place at least to identify how big it is.

If it really is, you know, manageable, that is good news, but if it is a big scandal, they have got really huge and pervasive misuse of credit cards in our system, as comfortable and as useful as they are in Federal purchasing, we might need some brand new systems that we may need to think about.

Thank you very much.

Mr. GREENWOOD. The gentleman, for Mr. Tauzin's information, early on under questions that I posed each of the witnesses testified essentially that we have no way of knowing the magnitude of this even to an order of magnitude, no way right now of estimating it.

The Chair thanks the gentleman and recognizes the gentleman from Kentucky, Mr. Fletcher, for 10 minutes.

Mr. FLETCHER. Thank you, Mr. Chairman.

I did not get here quite early enough to hear the testimonies, but thank you for appearing here.

Let me ask some questions probably to all three of you, but, Mr. Rehnquist, I will ask you first. You said 1.5 billion transactions? You mentioned a number.

Ms. REHNQUIST. 1.5 million we have in our data base.

Mr. FLETCHER. Oh, I thought I heard billion, and I was saying how can anyone monitor that. Even 1.5 million is quite a number. 1.5 billion kind of seemed insurmountable.

But let me ask you in light of what the chairman has asked: is there any system you have of regular auditing, of sampling? Because certainly if sampling randomly a certain number of transactions, seeing the percentage of fraud that exists in those would give you a very clear picture statistically of the degree of fraud and how much money is being wasted or defrauded out of the taxpayers, and I wonder if there is any system like that.

Do you plan on putting a system? What system of audits do you have? What limits are on certain individuals? Are there any limits, say, to contract employees that says there is a certain limit on the amount that you can charge over a period of time in any single amount?

How do you follow up those things if there are reports or things to insure that they do not occur again and that they are thoroughly investigated?

Ms. REHNQUIST. Do you want me to go first?

Mr. FLETCHER. yes, if you do not mind.

Ms. REHNQUIST. I guess in terms of doing a sample the 1.5 million transactions, I mean, yes, that can be designed, and that is probably—I mean that is the next step that we are looking at. But what we are trying to do first with those transactions is to get ourselves caught up with the U.S. Bank data.

They only keep the data for a couple of years. So we have about a year's worth of data. That is where the 1.5 million transactions comes in. So from that——

Mr. FLETCHER. I mean, that is an annual transaction count?

Ms. REHNQUIST. That is about a year, from June 2001. So, yes, I would say that is probably accurate.

So from that, I mean, we try to look at the things that you look for in the irregular purchases, the vendor or the amount of money.

I think what you are suggesting, as I understand it, would be just to do a statistical sample across the entire spectrum of transactions and see what you come up with. And I think that that would be a way that you might capture some of the data I think the chairman was suggesting that, yes, you are not going to go to Victoria's Secrets or whatever if you are trying to commit fraud, but you are going to be doing something where you are under radar. It is over a period of time, and a statistical sample might be able to capture that out of all of those transactions.

Another way to look at it, I think, as part of the kind of audit and evaluation work we do, is to look at it by component and see what practices and procedures are in place for the component on the systems control end, on the front end. I think that is another way to do it.

We hope to combine both of those approaches, and I think that that is what the IG community is trying to do in addition to the investigations, to get kind of the best practices with the education and the supervisor accountability up front, and I think that that is the best package.

Because the investigations, the analysis that we do on those transactions, that is after the fact. That is not before they are approved or anything like that.

Mr. FLETCHER. Anyone else want to comment on that?

Mr. FRAZIER. Yes, Mr. Fletcher. Let me make sure that the subcommittee understands a number of things. One, whereas the IG has a key role here and we surely have beefed that up and we are doing a lot, I want to emphasize that the agencies have a primary responsibility to be the first lines of defense. The first line supervisor should be routinely reviewing these things, looking for the same kinds of things.

They have access to the exact same information that we do, and then there are usually regional offices that oversee them, that go out and do spot checks. And then there are the people who run the program, who get this information.

So I would like to think that there are numerous people out there looking for this fraud. It should not just be the IG. We are going to look at a relatively small number of them. We are the only ones who can investigate the criminal violation when people use these cards for personal use, you know.

But there are numerous other people in the department who have as a requirement to stay on top of this, to review these responsibilities. When we do our audit reports and are looking for these systemic weaknesses, our criticisms are going to the managers of those programs to say why haven't you been conducting periodic spot reviews that you suggest. Why haven't those been done? Because those are the kinds of things that make a big difference.

So there are numerous people who have responsibilities who should be aggressively looking for the kinds of fraud and the problems that we have found.

Mr. FLETCHER. But I certainly think if you are going to try to quantitate this, you can have the software, and I think it is important that you mentioned that you have the software to certainly identify the outliers or red flags that would require further investigation.

But I think also because of the fact that there are going to be a lot of folks that are very sophisticated operate under the radar and under the software deductibility.

Ms. Rehnquist, I guess I came from the Committee on Education, and I was on oversight on there as well. We did a lot on the Department of Education, and I think there were, you know, Cadillacs and some other things that were purchased, and the problem was even when we asked to audit the books and give us an auditing, they could not audit.

Let me say: can the HHS give a thorough audit of their books?

I know that the department mentioned the day after the Department of Education news broke that the office role in auditing and oversight program, that you were going to make some changes, and what has been done since that point? And can you really give us a tight audit of those expenditures?

Ms. REHNQUIST. Well, that is when we started reviewing all of the transactions, was right after that. And before that time, we had prosecuted a couple of cases where we found that the behavior was

not just as a result of sloppy procedures, but people were, you know, buying things for personal use.

And I think one of them is still in jail. One of them is on probation, but that is what kind of kicked it off for us in terms of this very aggressive look on a transaction by transaction basis. I think that is just a part of it.

I think that the audit part can be more comprehensive. I think that is what the IG community is trying to combine both approaches. What we are doing now is very labor intensive I will tell you, and it takes a lot of resources from our Office of Investigations, and it is something that, you know, we are committed to doing because I think that the integrity of this program is crucial. But it has got to be, I think, in concert with the other kinds of management tools that the department is interested in doing. We are trying to centralize the policies and even figure out why the policies have become so decentralized and pull them back and try and get a unified set of guidelines.

Mr. FLETCHER. Thank you.

Mr. Chairman, I yield back.

Chairman TAUZIN. Would you yield?

Mr. FLETCHER. I would be glad to yield to the Chairman, Mr. Tauzin.

Chairman TAUZIN. A question just came up that we did not know an answer to. Can an employee or contract employee use one of these credit cards and return the products and get a store credit?

Mr. FRIEDMAN. We have instances, a slight variation on that theme, Mr. Chairman, where employees have turned around and sold the items that they have acquired using the government credit card.

Chairman TAUZIN. They have acquired thing and sold the item.

Mr. FRIEDMAN. Right.

Chairman TAUZIN. I am suggesting can they—we can do that today. We can buy something, bring it back, and get a store credit. Can they do that and have they done that?

Mr. FRAZIER. The answer is yes.

Chairman TAUZIN. And so that has been done.

Mr. FRAZIER. Yes.

Chairman TAUZIN. Does the software catch that?

Mr. FRAZIER. Not the software that we have been using. It would not.

Chairman TAUZIN. Well, thank you.

Mr. BASS. Would the gentleman from Kentucky yield for one?

Mr. FLETCHER. I would be glad to yield.

Mr. BASS. Thank you.

I think Dr. Fletcher asked an interesting question and got an interesting and good response from Mr. Frazier. The issue is an issue of responsibility here, and ultimately this whole this, this whole problem gets down to a very local level.

Mr. FRAZIER. It does.

Mr. BASS. And the people who are in individual offices that only have to look at one or two credit card bills or whatever they are each month ought to have the same level of responsibility for that as do the people making the charges because then they do not get anything out of it, and yet they have that responsibility.

I do not expect any comment from you, but it is an interesting, systemic answer to the problem we are addressing here today, I think.

I yield back to my friend from Kentucky.

Mr. FLETCHER. Thanks.

I yield back the remainder of my time.

Mr. GREENWOOD. The Chair thanks the gentlemen, and the Chair thanks very much the witnesses. This was a very good learning session for us, and you are excused.

The Chair calls forward the second panel, Mr. Mike Sade, who is the Director for Acquisition Management and Procurement Executive at the Department of Commerce; Mr. Howard Price, procurement analyst at the U.S. Department of Commerce; Mr. Steven Mournighan, Deputy Director for Procurement and Assistance Management at the Department of Energy; and Mr. Marc Weisman, Acting Deputy Assistant Secretary for Grants and Acquisition Management, the Department of Health and Human Services.

[Pause in proceedings.]

Mr. GREENWOOD. The hearing will come to order.

We thank each of you gentlemen for being with us this morning. We look forward to your testimony.

Before you offer your testimony, the Chair would remind you that this is an investigative hearing. We take testimony here under oath, and I would ask each of you if you have any objections to giving your testimony under oath this morning.

The PARTICIPANTS. No, sir.

Mr. GREENWOOD. The Chair would then advise you pursuant to the rules of this committee and the rules of the House of Representatives that each of you is entitled to be represented by counsel while you testify. Do any of you wish to be represented by counsel this morning?

The PARTICIPANTS. No, sir.

Mr. GREENWOOD. Okay. So no such desire. I would ask you to each rise and raise your right hand.

[Witnesses sworn.]

Mr. GREENWOOD. Okay. You are under oath, and we will begin with you, Mr. Sade. Welcome, and we look forward to your 5 minutes of testimony.

TESTIMONY OF MICHAEL S. SADE, DIRECTOR FOR ACQUISITION MANAGEMENT AND PROCUREMENT EXECUTIVE, U.S. DEPARTMENT OF COMMERCE; HOWARD G. PRICE, PROCUREMENT ANALYST, U.S. DEPARTMENT OF COMMERCE; STEPHEN D. MOURNIGHAN, DEPUTY DIRECTOR FOR PROCUREMENT AND ASSISTANCE MANAGEMENT, U.S. DEPARTMENT OF ENERGY; AND MARC R. WEISMAN, ACTING DEPUTY ASSISTANT SECRETARY FOR GRANTS AND ACQUISITION MANAGEMENT, U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Mr. SADE. Thank you, Mr. Chairman, Congressman Deutsch, Mr. Tauzin, and members.

My name is Mike Sade. I am the Procurement Executive at the Department of Commerce for which the responsibility of the Pur-

chase Card Program falls, along with other acquisition reform initiatives.

Some quick background statistics on purchase card at the Commerce Department. Eighty-nine percent of the dollars spent at the Department of Commerce through procurement are actually spent through the traditional methods, not through the Purchase Card Program. Over 91 percent of the transactions, procurement transactions, are actually accomplished with the purchase card. So it is a very important program to us at the Department of Commerce.

We have over 6,000 purchase cards, as Mr. Frazier testified. Our cardholder-to-approving official ratio has remained at four to one within the department over the last 2 years. I think that is something that is critical in terms of our oversight.

Currently Citibank is our purchase card provider through the GSA contract. We ordered a 5-year task order back in 1998 with them.

In terms of acquisition reform, the purchase card is one of the key elements of our overall acquisition reform initiatives at the Department of Commerce. Understanding the importance of that has been stressed by Johnnie Frazier, our Inspector General who has highlighted the implementation of acquisition reform at the department as one of the top ten management concerns.

In response to this challenge, we have taken a full risk management approach to implementation of all of the reforms, including the purchase card.

Commerce served as one of the pilot agencies back in 1986 with the Purchase Card Program. We are proud of what was accomplished there. The goals of the program remain the same as from that pilot. They were to improve mission support, streamline the placement of micro purchases and reduce administrative costs and paper work, while insuring adherence to the rules.

However, with those flexibilities and cost savings through such a program, they also pose great risks. Multiple control levers are in place that assist us in the day-to-day management of the program within the department and help identify the weaknesses.

Specifically, Commerce has had and continues to evolve its department-wide policy for the use of the purchase card. Regularly scheduled transaction and management reviews are performed at several levels, including at the Commerce Bank Card Center, the Bureau Agency Program Coordinators, and the approving officials.

In addition to the ad hoc reporting capabilities through the Citibank's electronic card management system, otherwise known as Citi Direct, it is now more fully utilized for the review since they have added several features to that system.

The department is moving to an electronic reconciliation process through its implementation of the Commerce administrative management system. This system is integrated with our core financial system. Through that system there are several safeguards that have been built in, which are improvements over the manual reconciliation process.

Even with the safeguards, however, Johnnie Frazier, Inspector General, spoke to six cases of abuse which occurred between 1997 and 2001. However, it is not always as it appears. For example, we

often track down and look at suspicious charges, and they turn out to be legitimate.

For example, within our National Oceanic and Atmospheric Administration, once we uncovered a massage parlor. Having looked into it with one of the largest, if not the largest contingent of scuba divers in the Federal marketplace, these divers after doing dives, et cetera, may require certain massage for rehabilitation.

It is important to note, and I know it was highlighted by Mr. Deutsch earlier, that of those cases we know, the six that have been closed, the total dollar value of the six cases is just in excess of \$64,000, compared to the total purchases of over half a billion dollars during that same period.

This is compared to the \$22 million in estimated cost avoidance or purchasing savings from just 1 year's use of the card at the department. The overwhelming majority of the cardholders are honest, dedicated public servants doing their best to meet mission success.

In each case of abuse, the impropriety was reported by either the supervisor or the approving official. The individual was prosecuted to the fullest extent of the law, terminated or resigned, and has made full restitution to the government. The system did catch them.

But again, I would highlight as we talked about earlier, it is not always clear that we are catching everybody. So what can we do about that?

We have taken actions to strengthen our purchase card program at Commerce on several fronts, including improving oversight through the department-wide risk management initiative, and we are lowering that down to the bureau specific oversight plans currently being generated.

We are improving the cardholder and approving official performance by clarifying their roles and responsibilities within the department and the program, and requiring training and certification from the on-line GSA training system.

We are also improving the controls over accountable property acquired with the purchase card system through several systems; reviewing cardholders' limits and their credit limits and their monthly limits on an annual basis to determine whether they need the credit limits that they do have.

Finally, we are in the process of revising our contracting officer's warrant program, and in conjunction with the reviews of the purchase card program, warrants will be required for any purchase card holder over \$2,500, with a limit over \$2,500, and those warrants will be linked to the training, the educational requirements for the individuals, and experience.

In conclusion, the Purchase Card Program does streamline the procurement process and empowers the front line to fulfill program needs in a timely and efficient manner. Key benefits from the program include the cost avoided, which I talked about earlier, estimated at \$22 million in just 1 year.

The purchase card has been a key contributor to the administrator efficiencies within the procurement process. At Commerce we measure our cost-to-spend ratio or, that is, the cost of procurement operations to spend \$1. This metric since 1997 has gone from 3

cents to spend \$1 down to just over 1 cent to spend \$1. And a lot of that, I believe, has been achieved by putting that 91 percent of the transactions onto the purchase card.

That having been said, we do believe that the benefits must be balanced by responsible and prudent use of the card. We look forward to continuing our work with the Inspector General at Commerce and in implementing the recommendations from his review and the guidance that the PCIE will be putting out.

And I cannot close without highlighting the dedication of the Commerce Bank Card Center, the agency program coordinators, and our policy office within my organization who are continually working to improve this system within the Department of Commerce.

I thank you for the opportunity to appear today and look forward to your questions.

[The prepared statement of Michael S. Sade follows:]

PREPARED STATEMENT OF MICHAEL S. SADE, PROCUREMENT EXECUTIVE AND
DIRECTOR FOR ACQUISITION MANAGEMENT, U.S. DEPARTMENT OF COMMERCE

Good morning Mr. Chairman, Congressman Deutsch, and members of the subcommittee. My name is Mike Sade and I serve as the Procurement Executive for the Department of Commerce. I appreciate the opportunity to appear before you today to discuss the implementation of acquisition reform initiatives at Commerce, oversight of and improvements to the Purchase Card Program, and the important benefits that result of the purchase card program.

Typically, the Department buys over \$1 billion in goods and services needed to support its diverse and geographically dispersed program operations. The majority of these funds are spent through traditional procurement mechanisms rather than purchase cards. Out of the \$1.2 billion that was spent in FY 2001, \$1.1 billion—or 89 percent of the total—was awarded through contracts or purchase orders.

Acquisition Reform at Commerce

The Purchase Card Program is one of many acquisition reforms being used to improve the timeliness and quality of the goods and services used to help Commerce carry out its mission of promoting job creation and improved living standards for all Americans by creating an infrastructure that promotes economic growth, technological competitiveness, and sustainable development. In addition to the Purchase Card Program, reforms being implemented at Commerce include: expanded use of task order contracts, enhanced market research prior to determining acquisition strategies, improved planning for contract administration and monitoring, and expanded use of performance-based service contracting.

While we are actively working to implement the innovative tools that are available to simplify and streamline the procurement process, we recognize the need for maintaining proper controls and accountability in carrying out all aspects of acquisition reform. The importance of this effort has been highlighted by our Inspector General, who has identified the implementation of acquisition reform initiatives as one of the top ten management challenges facing the Department.

To address this challenge, we have adopted a comprehensive approach for managing and minimizing the risks involved in carrying out acquisition reform.

- We have adopted a balanced scorecard approach to establishing goals for and measuring performance of procurement offices throughout the Department, and incorporated acquisition planning into the budget process.
- We are providing needed tools and training to front line employees to educate them about and equip them to comply with new procedural requirements.
- Additionally, we are conducting focused program reviews on the use of new procurement methods, and developing control levers for large dollar or riskier acquisitions.

We have completed or are working on focused program reviews in the areas of:

- Acquisition Workforce Assessment—Complete
- Government-Wide Acquisition Contract (GWAC) and Other Agency Contract Review—Draft Report Prepared
- Appropriate Delegation of Acquisition Authority—Proposal Under Development
- Interagency Agreements/MOUs—Underway

- Contracting Officers Technical Representative (COTR) Program—Targeted for September 2002
- Purchase Card Use and Compliance—Ongoing with Office of Inspector General (OIG)

Purchase Card Program

Commerce is proud to have served in the government's pilot purchase card program initiated in 1986. The goals of the pilot were the same as the program that we are currently implementing: (1) improve mission support, (2) streamline the placement of micro-purchases, and (3) reduce administrative costs and paperwork while ensuring adherence to federal acquisition regulations.

Because of the increased savings and efficiencies achieved during the pilot program, use of the purchase card was greatly expanded in 1988 when the General Services Administration established the first government-wide Commercial Purchase Card Program. Five banks provide card services to the government under the current master contracts, which were awarded by GSA in 1998. Citibank provides card services to the Department of Commerce through a five-year task order that was issued in November 1998.

The Department presently has over 6,000 card holders. The cardholder-to-approving officials ratio for FY 2001 and FY 2002 is 4:1. In FY 2001, the cost avoidance or cost savings through the use of Purchase Cards was \$22,000,000.

Recognizing that the flexibilities offered by such a program also pose potential risks, the Department has continuously taken steps to: identify opportunities to strengthen oversight and management of the Purchase Card Program, and implement appropriate corrective action.

The approach taken in managing this program is a direct outgrowth of our risk management strategy. Oversight of the DOC Purchase Card Program is a direct result of our overall Risk Management Approach. Multiple control levers are in place that assist with the day-to-day management of the program and help to identify weaknesses. These include Department-wide policies; centralized management and reporting; bureau-specific policies, procedures and reviews; regularly scheduled transaction reviews; and systematic reconciliation procedures.

- Specifically, the Office of Acquisition Management has, for many years, had an established Department-wide policy for the Purchase Card Program. The Commerce Acquisition Manual clearly establishes the roles and responsibilities of program participants as well as procedures and guidance for program use. This policy document was entirely rewritten in 1999, and was again updated as recently as February of this year. I will discuss the specifics of this update later in my testimony.
- The Commerce Bankcard Center, established in 1987, is primarily responsible for centralized maintenance of Department-wide data and reporting as well as other program support functions.
- The Head of the Contracting Office for each bureau, including the Office of the Secretary, is responsible for management and day-to-day oversight of the Program within their respective unit. They are assisted by individuals who have been designated as the Agency Program Coordinators for their organizations. Responsibilities include developing bureau-specific procedures, managing the program, maintaining proper security, ensuring account reconciliation, conducting scheduled documentation reviews, and establishing accounts with the contractor.
- Regularly scheduled transaction reviews are performed at several levels and include the Commerce Bankcard Center, bureau Agency Program Coordinators, and approving officials.

At the highest level, the Commerce Bankcard Center performs a daily review of questionable Standard Industrial Code transactions. Our service provider, Citibank, provides a daily transaction file to the Commerce Bankcard Center, which it screens for questionable transactions such as those involving airlines, hotels, car rental agencies, gas stations, restaurants, jewelry stores, clothing stores, catalog merchants, health service providers, and religious and political organizations. Any questionable transactions are brought to the attention of the Head of Contracting Office for investigation.

In addition, each bureau has established procedures for scheduled transaction reviews by the Agency Program Coordinator, who relies on transaction data provided by the Commerce Bankcard Center and reports provided by Citibank. The ad hoc reporting capability of Citibank's electronic card management system, Citidirect, is also utilized to review transactions.

This brings us to the reconciliation process used by cardholders and approving officials to review and certify individual transactions on a monthly basis at the grass

roots level. The general procedure requires that all cardholders maintain a purchase card log (either electronic or manual). Upon receipt of the monthly statement, the cardholder reviews all information included in the statement for accuracy and compares it with the log. Cardholders are required to describe each transaction on the statement, indicate the appropriate object class and accounting code, dispute any unrecognizable or incorrect transactions, and certify the statement for payment.

The cardholder provides the statement, along with supporting documentation, to the approving official for review and approval. Upon receipt the approving official reviews the statement, comparing it to the Detailed Account Cycle Report that they have received from Citibank. It is the approving official's responsibility to resolve any outstanding issues, verify the appropriateness of the transactions, and certify each statement for payment. All original documentation is returned to the cardholder for retention in accordance with the Commerce Acquisition Manual, and the approved certified statement is forwarded to the payment office for payment. Although the general reconciliation procedures are the same across the Department, specific methods may vary since some bureaus perform the function manually and others electronically.

Finally, it should be noted that—as part of its system of checks and balances—the Department is moving to an all-electronic reconciliation process through implementation of the Commerce Administrative Management System or CAMS—the Department's core financial system. CAMS includes several functional administrative systems that provide additional operational capabilities. One of these is the Commerce Purchase Card System (CPCS), which provides a reconciliation and payment function for purchase cards. Currently, two of our bureaus—Census and NOAA—have implemented CPCS. Once CAMS' implementation is completed, however, CPCS will be used Department-wide.

Use of CAMS, and specifically CPCS, adds several safeguards over a manual reconciliation process:

- It requires and verifies that all users (cardholders and approving officials) are current active employees within the Department.
- System constraints will not allow a cardholder to be their own approving official.
- Transactions cannot be edited or deleted from CPCS. The transaction data, as received from the bank, remains intact within CPCS.
- CPCS ensures that transactions are entered in and matched to the order log, reconciled by the card holder, and reviewed and approved by the approving official.
- CPCS requires that proper accounting codes are applied to all transactions as part of the reconciliation process.
- Additionally, CPCS generates reports identifying all transactions that have not been reconciled and approved in a timely manner.

Risk management is a vital component of the DOC Purchase Card Program and on-going oversight is a priority. Six cases of abuse, during the period of 1997–2001, have been identified. The total dollar value of the six cases identified totaled \$64,278, or .0116% of the total Purchase Card Sales of \$555,590,940 from 1997 to 2001. In each identified case of abuse, the individual was prosecuted to the full extent of the law, terminated or resigned, and full restitution was made to the government.

Continuous program improvement has been the key to success for the Purchase Card Program at Commerce. We will continue to work—both with the Inspector General and independently—to address areas needing improvement, implement corrective actions, and identify opportunities to enhance the oversight and management of DOC's Purchase Card Program. We are focusing on three major areas: improving cardholder performance, updating approving official procedures, and strengthening the control of accountable property purchased under the program.

We have taken action to strengthen the Purchase Card Program on several fronts.

- In June 2001, we conducted a conference specifically focused on the use of purchase, travel, and fleet cards. During the conference, several program issues were identified and possible solutions discussed. These include:
 - Improving oversight by implementing a Department-wide risk management initiative,
 - Continuing to improve cardholder and approving official performance by clarifying their roles and responsibilities in the Commerce Acquisition Manual,
 - Improving controls over accountable property acquired with the Purchase Card,
 - Clarifying the responsibilities of approving officials within their designation, and
 - Recommending annual review of cardholders and credit limits

- As mentioned earlier, we revised the Commerce Acquisition Manual this past February to improve cardholder and approving official training standards, requiring all cardholders and approving officials to complete GSA's web-based training prior to participating in the program. In cases where authority will exceed the \$2,500 micro-purchase threshold, cardholders and approving officials must also complete a 40-hour course on simplified acquisition procedures. Additionally, refresher training consists of completing a minimum of 24 hours in the area of simplified acquisition once every five years.
- The Department is currently in the process of revising its Contracting Officer Warrant Program to require warrants, based on training, education, and experience, for all purchase card holders with authority over the \$2,500 threshold.
- The Risk Management approach to the Purchase Card program has recently been further implemented when two procurement offices within the Department, including NOAA, the Department's largest program participant, realigned to include Purchase Card Oversight Teams that are dedicated to management, oversight, and identifying areas of improvement and solutions.

We believe that these actions have and will continue to help us in maintaining the integrity of this important program. We recognize, however, that there are always areas in which improvement is possible. These challenges include:

- Replacing multiple financial systems and implementing CPCS Department-wide—The Department is moving forward to implement a single financial system which will play a significant role in reconciliation,
- Ensuring continued compliance with established policy and procedures; and
- Controlling accountable property within the Department.

Conclusion

The Purchase Card Program has played a key role in the implementation of Department of Commerce Acquisition Reform Initiatives. It streamlines the procurement process and empowers the buyer to fulfill low cost program needs in a timely and efficient manner, thereby, supporting the overall mission of the Department. Key benefits from this program include the procurement cost avoided. It is estimated that—in FY 2001 alone—the use of the purchase card saved the Department of Commerce approximately \$22 million. Primarily through the use of the purchase card, the cost to spend ratio or cost of procurement operations cost to spend one dollar for the Department of Commerce has gone from \$.03 in 1997 to just over \$.01 in 2001.

That having been said, we believe that these benefits must be balanced by responsible and prudent use of the purchase card. I hope that my description of the oversight mechanisms and management controls that are now in place, and the steps that are being taken to strengthen our program is helpful in understanding how we are working to achieve this balance. We look forward to continuing to work with the Inspector General to implement any recommendations that might result from the review that is now underway.

Thank you, Mr. Chairman, for the opportunity to testify before the subcommittee. I would be glad to answer any questions at this time.

Mr. GREENWOOD. Thank you, Mr. Sade.

Mr. Price, you are recognized for 5 minutes.

TESTIMONY OF HOWARD G. PRICE

Mr. PRICE. Thank you.

Good morning, Mr. Chairman, Ranking Member Deutsch, and members of the subcommittee. My name is Howard Price, and I currently serve as a procurement analyst at the Department of Commerce.

In August 2000, I was a supervisory contract specialist in the Department's Office of Acquisition Management, Office of Acquisition Services.

I appreciate the opportunity to appear before you today as my testimony is provided as statements of facts related to a case of improper use of the government purchase card.

In August 2000, my duties included serving as the purchase card approving official for my employees. As an approving official, I was

responsible for insuring the validity and allowability of transactions of cardholders for which I was responsible.

I received a written notification from the Department's Finance Office stating that they had not received the signed monthly purchase card statement of an employee, and at the time, this was the procedure that we used.

This notification concerned me because I had not assigned any work to the employee that would require them to use the purchase card. I reviewed the statement and observed that all charges appeared not to be for official purposes.

I immediately contacted Mr. Sade, and after consulting with him, I took the report to the Department's Inspector General for Investigations and discussed how we should handle. I also began discussions with our Office of Human Resources about their support and guidance related to disciplinary action.

The next day, OIG investigators interviewed the employee, and when interviewed, the employee confessed to having knowingly made all of the listed purchases for personal reasons and without any legitimate government purpose.

The same day as the employee's confession to the investigators, the employee was placed on administrative leave, and because the employee's position of contract specialist requires a high level of ethics and integrity, the employee was subsequently informed that the government proposed to suspend them indefinitely from their position. And in October 2000, the employee was suspended, and these actions were deemed appropriate in accordance with Federal laws.

The Office of Inspector General continued with their investigation, while the Department continued with the administrative process. The Justice Department accepted the case for criminal investigation, and during the investigation my office provided information about our procedures for using the government purchase card and identified the manner that the employee deviated from the proper procedure.

In December 2000, the employee entered a guilty plea in U.S. District Court to one count of theft of government property, and as part of the plea agreement, the employee resigned from Federal service that same day.

The employee was subsequently sentenced to 6 months imprisonment, followed by home detention for 2 further months and a 3-year period of supervised probation. Restitution to the Department in the amount of over \$46,000 was awarded by the court.

This was a troubling and unfortunate situation, and the department has implemented additional procedures to detect, prevent, and manage government purchase card fraud at the department. These procedures are to prevent cardholders from circumventing the requirement of approving officials' statement, review, and approval, the Office of Secretary's purchase card agency program coordinator has instituted a tailored reporting procedure. This procedure is supported by the purchase card service provider and the Commerce Bank Card Center.

In conjunction with our no activity report, a program was implemented for weekly monitoring of the Office of the Secretary's cardholder activity through service providers' on-line system. Sus-

picious and/or questionable cardholder activity is identified by standard industrial classification codes and merchant category code identifiers and planners.

If transactions are identified as suspicious or questionable, formal inquiries to the cardholder and approving official regarding the transactions are made and resolved accordingly.

Thank you again, Mr. Chairman, for the opportunity to testify before this subcommittee, and I am glad to answer any questions related to my statement.

[The prepared statement of Howard G. Price follows:]

PREPARED STATEMENT OF HOWARD G. PRICE, PROCUREMENT ANALYST, U.S.
DEPARTMENT OF COMMERCE

Good morning Mr. Chairman, Ranking Member Deutsch, and members of the subcommittee. My name is Howard G. Price and I currently serve as a Procurement Analyst with the U. S. Department of Commerce. In August 2000, I was a Supervisory Contract Specialist in the Department's Office of Acquisition Management, Office of Acquisition Services. I appreciate the opportunity to appear before you today. My testimony is provided as a statement of the facts related to a case of improper use of a Government purchase card.

In August 2000, my duties included serving as a purchase card Approving Official for my employees. As an Approving Official, I was responsible for ensuring the validity and allowability of transactions of cardholders for which I was responsible. I received written notification from the Department's finance office stating that they had not received the signed monthly purchase card statement of an employee. This notification concerned me because I had not assigned any work to the employee that would require them to use the purchase card. I reviewed the statement and observed that all charges appeared to be not for official purchases.

I immediately contracted Mr. Michael Sade, who at that time was acting Director for the Office of Acquisition Management. After consultation with Mr. Sade, I took the report to the Department's Inspector General for Investigations and discussed how we should handle. I also began discussion with our Office of Human Resources about their support and guidance related to disciplinary action. The next day an OIG investigator interviewed the employee. When interviewed, the employee confessed to having knowingly made all the listed purchases for personal reasons and without any legitimate government purpose. The employee attributed their actions to personal, financial and legal problems. The same day as the employee's confession to investigators, the employee was placed on administrative leave. Because the employee's position of contract specialist requires a high level of ethics and integrity, the employee was subsequently informed that the Government proposed to suspend them indefinitely from their position and in October 2000, the employee was suspended. These actions were deemed appropriate in accordance with the provisions of Title 5 of the United States Code, Chapter 75, the implementing regulations at 5 C.F.R. Part 752, and Department Administrative Order 202-751. The Department's Offices of General Counsel and Human Resources provided advice and counsel throughout this administrative process.

The Office of Inspector General continued with the investigation while the Department continued with the administrative process. The Justice Department accepted the case for criminal investigation. During the investigation, my office provided information about our procedures for using the government purchase card(s) and identified the manner that the employee deviated from proper procedure.

On December 12, 2000, the employee entered a guilty plea in the U. S. District Court for the District of Columbia to one count of theft of government property. As part of a plea agreement, the employee resigned from federal service on December 12, 2000. The employee was subsequently sentenced to six months imprisonment, followed by home detention for a further two months, and a three-year period of supervised probation. Restitution to the Department in the amount of \$46,939.48 was awarded by the court.

This was an unfortunate situation and the Department has implemented additional procedures to detect, prevent and manage Government purchase card fraud at the Department. These procedures are:

1. To prevent cardholders from circumventing the requirement for Approving Official statement review and approval, the Office of the Secretary's (OS) purchase card Agency Program Coordinator (APC) has instituted a tailored reporting pro-

cedure. This procedure is supported by the purchase card service provider and the Commerce BankCard Center. All Approving Officials within the OS now receive monthly "no activity" reports for each of their cardholders. If Approving Officials do not receive card statements for approval by the 30th of each month, and a "no activity" report has not been received, it is the Approving Official's responsibility to investigate further.

2. In conjunction with the "no activity" report, a program was implemented for weekly monitoring of OS cardholder activity through service provider's on-line system. Suspicious and/or questionable cardholder activity is identified by Standard Industrial Classification (SIC) and Merchant Category Code (MCC) identifiers and purchasing patterns. If transactions are identified as suspicious or questionable, formal APC inquiries to the cardholder and Approving Official regarding the transactions are made and resolved accordingly.

Thank you again, Mr. Chairman, for the opportunity to testify before the subcommittee. I would be glad to answer any questions you may have at this time.

Mr. GREENWOOD. We thank you, Mr. Price.

Mr. Mournighan.

TESTIMONY OF STEPHEN D. MOURNIGHAN

Mr. MOURNIGHAN. Thank you. Thank you, Mr. Chairman, Ranking Member Deutsch, and Mr. Tauzin for inviting me to appear before the subcommittee to discuss with you the Purchase Card Program of the Department of Energy.

The department began using the purchase card nearly 14 years ago, and over that period, we have realized significant efficiencies in the way we do business and greater worker productivity. In the field, we have been able to reduce our procurement staffs by almost one third and at headquarters by almost one half.

During this time, the contractors who manage and operate our national laboratories, production facilities, and environmental restoration sites have also adopted purchase cards as part of their commercial purchasing systems. Some of these contractors chose to use Smart Pay Program, but not all.

The use of purchase cards, like any business system involves risk. It is our job to continually seek to minimize these risks. We have in the Federal offices central oversight of the Purchase Card Program, well trained purchase cardholders, detailed policies and procedures with appropriate checks and balances in the use of the purchase card, and we have strict limitations on cardholders' authorities.

Contracting officers do review cardholder files, but we must be constantly vigilant as to how the program is actually operating. Beginning last summer, we initiated an in depth assessment of our Purchase Card Program beginning with a 100 percent review of all purchase cardholder files at headquarters. That involves 35 percent of all spending in the department's Federal offices.

I then conducted a survey of all procurement offices to ascertain their local policies and procedures vis-a-vis the findings of the recently issued General Accounting Office report that was issued last summer.

Further, the Chief Financial Officer has undertaken a statistically valid sample of all purchase cardholder files, both Federal and contractor, to determine the extent of compliance with their purchasing policies and procedures. This involves hundreds and hundreds of files with thousands of actions being reviewed.

We have also initiated enhanced training both for approving officials, as well as of cardholders. We have changed our guidelines to

stricter, greater oversight by the contracting officers. We have set a strict ratio for approving officials to cardholders. Today the average is one to three in the Department of Energy.

We require evidence of receipt of any property purchased be provided to the approving official when the bill is submitted for approval, and having the local purchase card coordinator—as I had mentioned there is one at each Federal site—conduct monthly what we call a red flag test, of Bank of America report looking for suspicious purchases.

And finally, we require annual reviews of every cardholder file with a copy of the review coming to me at headquarters.

Regarding contractors, we have established criteria for evaluating their commercial purchasing systems so that we can evaluate those systems to assure that they do have the proper checks and balances.

These are just some of the actions we have taken, but let me emphasize that this is a valuable program and that we are continually looking for ways to improve the accountability of those involved in the program.

Thank you very much, Mr. Chairman. I would be happy to answer any questions.

[The prepared statement of Stephen D. Mournighan follows:]

PREPARED STATEMENT OF STEPHEN D. MOURNIGHAN, DEPUTY DIRECTOR, OFFICE OF PROCUREMENT AND ASSISTANCE MANAGEMENT, OFFICE OF MANAGEMENT, BUDGET, AND EVALUATION/CHIEF FINANCIAL OFFICER, U. S. DEPARTMENT OF ENERGY

My name is Stephen D. Mournighan, and I am the Deputy Director of the Office of Procurement and Assistance Management, Office of Management, Budget, and Evaluation/Chief Financial Officer, U. S. Department of Energy. My organization provides the policies and procedures for Department of Energy (DOE) procurement activities, other than the National Nuclear Security Administration, and also provides the general management framework for this procurement system. I am responsible for DOE's purchase card management under the General Services Administration's SmartPay program, and for establishing the policies and procedures under which purchase cards are used by DOE's component organizations.

The Department of Energy began using purchase cards in 1988 as part of an interagency pilot program sponsored by the Office of Management and Budget. As a result of that pilot program, which the Department deemed successful, a purchase card program, limited to simplified acquisitions, was initiated throughout the Federal offices of the Department of Energy under a contract with Rocky Mountain Bank. Most other Federal agencies did the same. During the mid- 1990's, expanded use of purchase cards as a means of improving efficiency, cost effectiveness and productivity became a major management initiative of the Federal Government. This mirrored what was happening in private industry, where the use of purchase cards had become standard commercial practice.

In 1998, the General Services Administration carried out a competitive procurement for a Federal Government-wide purchase card program, awarding five contracts. The Department of Energy sought additional competitive proposals from each of those banks, and, based upon the information provided by the offerors, selected the Bank of America. In November, 1998, the Department of Energy awarded a task order to the Bank of America under the General Services Administration (GSA) contract for its purchase card program. Pursuant to applicable Federal regulations, the Department of Energy permitted, but did not require, its major cost reimbursement contractors to establish a purchase card program under the GSA Smart Pay program.

The Government's use of purchase cards has been deemed a positive tool and a boon to productivity. We also believe that the purchase card is a useful tool in carrying out the Department's purchasing and payment activities. The purchase card is limited, for the most part, to simplified acquisitions, which, prior to the advent of the purchase card, were paper bound, labor intensive, and, as now, low dollar value procurement actions. By using more efficient techniques such as the purchase card, the Department of Energy has been able to reduce its transactional costs, re-

duce procurement staffing, and focus its limited professional contracting resources on other priorities.

The Department of Energy has established policies and procedures for use of purchase cards, including related management controls, which reflect the risks of permitting non-procurement organizations to directly acquire low dollar value items to meet their requirements. Our guidelines, among other things:

- Define roles and responsibilities of purchase card holders, approving officials, and other officials who take part in the requisition, purchasing and payment activities of the program;
- Place limits concerning what, how, when and where goods and services can be purchased;
- Require that purchase card holders be formally authorized through a special delegation or warrant;
- Require formal, documented training of all card holders and approving officials;
- Require separate approvals for the initiation of a purchase and subsequent approval to confirm receipt;
- Require review and approval of invoices by approving officials prior to forwarding to the payment office, which also reviews the invoices;
- Require each component organization utilizing purchase cards to establish local operating procedures consistent with our guidelines and to have a Purchase Card Program Coordinator to oversee implementation of these local policies and procedures;
- Require periodic reviews of transactions by these Purchase Card Program Coordinators.

Although applicable procurement regulations do not contain requirements for purchase card transactions by Government contractors, the Department requires its major cost reimbursement contractors to establish formal written policies and procedures for their use, which are subject to the review of Federal contracting officers. Contractors are also required to ensure the effectiveness of the purchase card transactions as well as the allowability of costs incurred under such transactions. This is accomplished through audit, as well as initial compliance reviews by Federal contracting officers. By terms of these contracts, costs incurred by contractors through purchases, including those accomplished using purchase cards, are unallowable if the acquisitions are not associated with the performance of contract work, or are unreasonable in amount or nature.

The Department takes its fiduciary responsibilities for the proper administration of its purchase card program very seriously. It is not enough simply to issue policies and procedures. Rather, the Office of Management, Budget and Evaluation/Chief Financial Officer has taken a proactive approach to addressing potential vulnerabilities in the Department's purchase card programs.

The Department began an assessment of its purchase card program last summer coincident with the issuance by the General Accounting Office of its review of purchase card activities at the Department of Defense and related Congressional hearings. We took seriously the concerns raised at the time and have used the program weaknesses identified by the General Accounting Office as a foundation for assessing our own activities. This subject was identified as a potential vulnerability in my office's annual submission under the Federal Managers' Financial Integrity Act. At Headquarters, we conducted a complete analysis of purchase card holder files to determine the extent of compliance with policies and procedures. That review found a few purchase card holders splitting orders, which involves taking a single order and dividing it into multiple parts in order to stay below a single purchase threshold, and their cards were canceled and the office's ability to purchase was thus restricted.

This assessment process has included numerous and varied activities. A comprehensive review to encompass all Departmental and contractor sites has been initiated under the leadership of the Department's Chief Financial Officer.

In November, 2001, my office undertook a survey of the Department's contracting activities to determine the extent of compliance with the Department's guidelines. Although the contracting activities reported a high degree of compliance, we made changes to the Guidelines to specifically state that annual reviews of purchase card holder files would be required; rebates should be verified; and training requirements for card holders with micro purchase authority clarified. We further required that approving officials not be responsible for more than five purchase card holders, and that Purchase Card Program Coordinators undertake, monthly, a "red flag" review of purchases to identify seemingly abnormal purchases so that they might be promptly reviewed. We also undertook a benchmarking study of other agencies' purchase card programs, and where we found areas where we might make improvements, we also changed our Guidelines.

In March, 2002, the Chief Financial Officer initiated a comprehensive review of purchase card transactions at both the Federal and contractor sites with responsibility for managing and operating our facilities. This included the development and deployment of a comprehensive review guide that addresses all aspects of the purchase card transaction cycle and the development of a statistically valid sample of purchase card holder files for Fiscal Year 2001 that will be selected for detailed examination. Completion of these reviews will provide us the ability to assess the extent of any problems Department-wide, and to develop appropriate and aggressive corrective action plans. To date, reviews at six sites, both Federal and contractor, have been completed with reviews at all sites to be completed this summer. Based upon the results of these reviews, which are now being prepared, the Department will make any further changes to its policies, procedures, and program oversight to further minimize risk to the taxpayer.

On April 8, 2002, my office initiated a comprehensive review of all purchase card holder delegations to Federal employees, requesting the contracting activities to assess usage of each card, and the dollar level of purchasing by each card holder, in order to ascertain the appropriateness of the delegation, and whether the purchase card holder even needs the card.

We are also moving forward in the area of training by requiring in the Guidelines that approving officials be trained in their responsibilities, and that refresher training be provided to both approving officials and purchase card holders on at least a biannual basis. We have identified on line training for approving officials, and are working to develop a Department of Energy specific training course to be taken by purchase card holders with warrants for purchases between \$2,500 and \$25,000.

Concerning oversight of the contractors who manage and operate our facilities, they are required to have a purchasing system approved by the DOE contracting officer. My office is in the process of conducting a review of its guides which deal with contractor performance measurement and with contract administration in order to make changes which will ensure that, in reviewing these purchasing systems, appropriate checks and balances are included to preclude losses. We are also developing procedural guidelines to require that contractor purchase card systems have adequate internal controls and procedures.

The review conducted by the Office of the Inspector General identified seven cases of abuse. These situations, documented in Office of Inspector General Letter Report dated February 26, 2002, were predominantly associated with contractor employee transactions. Based on their assessment of those cases, the Inspector General recommended certain "best practices" which the Department has adopted for inclusion in its policies and procedures. It should be noted that in every instance where the individual abused the purchase card, that individual has been fired or resigned from his or her job and prosecuted under applicable criminal laws. Amounts expended for improper purchases have been determined unallowable for reimbursement under the contracts and grants in question, and virtually all amounts have been recovered. The Department will continue to take this aggressive posture. For those cases identified in the Inspector General's report, I have asked the contracting activities to provide specific information in order that the Department might debar the individuals involved.

Mr. Chairman, I believe that the purchase card program has resulted in significant savings to the taxpayer in terms of efficiency of operations. I also believe that the Department must be ever vigilant to avoid loss of taxpayer money. That is why we have strengthened our policies and procedures, why we are conducting a comprehensive review of purchase card holder files, why we are enhancing our training, and why we are taking appropriate action when misuse is found.

Mr. GREENWOOD. Thank you.

Mr. Weisman, you are recognized for 5 minutes for your testimony.

TESTIMONY OF MARC R. WEISMAN

Mr. WEISMAN. Good morning, Mr. Chairman, members of the subcommittee. I appreciate the opportunity—

Mr. GREENWOOD. Excuse me. Mr. Mournighan, would you pass Mr. Weisman the microphone?

Mr. MOURNIGHAN. Oh, I am sorry.

Mr. GREENWOOD. That is fine.

Mr. WEISMAN. Good morning, Mr. Chairman and members of the subcommittee.

I appreciate the opportunity to participate in today's hearing on usage of the government credit cards for procurement purchasing at the Department of Health and Human Services.

I direct the Office of Grants and Acquisition Management, a component of which is the Office of Acquisition Management, which office exercises functional management of purchasing activities within the department.

HHS spends about \$5.5 billion each fiscal year. In fiscal year 2001, HHS obligated approximately \$338 million through the use of the purchase credit card, a total of 670,449 purchase card transactions were accomplished in fiscal 2001. The average purchase amount of each transaction was about \$500. About 7,500 purchase cards are currently issued in the department.

Implementation of the purchase card program at HHS has enabled the acquisition work force to absorb a decrease of over 300 full-time positions since passage of the Acquisition Streamlining Act in 1994. Savings from this work force reduction and administrative cost savings associated with the reduction of paper based transactions is estimated at over \$40 million a year based on current purchase usage volumes.

In addition, approximately \$1 million was rebated to HHS in 2001.

In conformance with Secretary Thompson's vision of one department, my office and the HHS Inspector General will be working together to incorporate common controls over the purchase card program throughout HHS. This will be necessary because authorization and implementation of the purchase program occurred at a time when HHS was undergoing a movement toward decentralization of its management controls. The Office of Acquisition Management did issue general policy guidance to all HHS components when the purchase card program first began and also required that each component put its own more detailed procedures in place.

While all of our operating components provide training and oversight of the program, their methodologies do differ. The Office of Acquisition Management began establishing policies for use of the government purchase cards in the late 1980's, but from then until the present, our program has focused on six key elements: the responsibilities of cardholders; the responsibilities of approving officials; training; point of sale controls; audits and reviews; and problem notification procedures.

All of our operating divisions require training prior to the issuance of a card to a cardholder. Our training was developed in house, and our training is delivered by procurement personnel in our operating offices. Approving officials are also required to take training.

The transactions of each cardholder are reviewed monthly by the approving official. Each operating division conducts a manual review of the transactions at a level above the approving official, and in some cases this manual review is aided by computer software which assists in targeting specific reviews by looking at such things as specific vendor names and multiple transactions at the same vendor in short timeframes.

All HHS purchase cards have point of sale electronic limitations, such as the blocking of certain merchant categories, imposing monthly purchase ceilings, and single purchase dollar controls. These controls for merchant categories are necessarily broad in many cases. It is also the case that while airlines, hotels, and restaurants are generally off limits to purchase card transactions, renting a hotel conference room for a training class would be a legitimate transaction.

Lifting or changing these controls may only be authorized by procurement officials who have cognizance over the cards.

The Centers for Disease Control, the Indian Health Service, the National Institutes of Health, and the Centers for Medicare and Medicaid Services manage the Purchase Card Program in these operational divisions. Our Program Support Center manages the program for all other components of the department.

At the Centers for Disease Control, the Finance Office, and has responsibility for funds of credit cardholders. However, the Procurement Office is notified of any problematic findings.

Procurement officials have the lead at the four other components. Most auditing is conducted on a random basis done monthly. All components suspend cards when deemed necessary. Notification of the Inspector General is not automatic and is a judgment call by procurement officials.

I appreciate the opportunity to participate in efforts to bring about improvements to HHS programs and operations. The purchase card is an important business tool. Its process efficiencies have eliminated millions of transactions associated with not only the ordering themselves, but also with invoices and payments.

I concur with our Inspector General and her conclusion that HHS currently lacks centralized policy, and I look forward to working with the Inspector General and all other appropriate parties in continued effort to insure proper productive use of this purchasing tool.

Thank you for the opportunity to appear today. I welcome your questions.

[The prepared statement of Marc R. Weisman follows:]

PREPARED STATEMENT OF MARC R. WEISMAN, ACTING DEPUTY ASSISTANT SECRETARY, OFFICE OF GRANTS AND ACQUISITION MANAGEMENT, DEPARTMENT OF HEALTH AND HUMAN SERVICES

INTRODUCTION:

Good morning Mr. Chairman and Members of the Subcommittee. I appreciate the opportunity to participate in today's hearings on the usage of the Government Credit Cards for procurement purchasing at the Department of Health and Human Services (HHS). I direct the Office of Grants and Acquisition Management a component of which is the Office of Acquisition Management, which office exercises functional management of purchasing activities within the Department.

BACKGROUND:

HHS procurement spending averages about \$5.5 billion dollars each fiscal year. In fiscal year 2001, HHS obligated approximately \$338 million dollars or about 8% of our procurement dollars through the use of purchase credit cards. A total of 680,449 purchase card transactions were accomplished in fiscal 2001. The average dollar amount per transaction was \$500. About 7,500 purchase cards are currently issued.

Implementation of the purchase credit card program at HHS has enabled the acquisition workforce to absorb a decrease of over 300 full time positions since passage

of the acquisition streamlining act of 1994. Saving from this workforce reduction and administrative cost saving associated with the reduction of paper-based order transactions, invoicing and payments is estimated at over \$40 million dollars a year based on current purchase usage volumes. In addition, approximately \$1 million dollars was rebated to HHS in fiscal 2001.

THE HHS PURCHASE CREDIT CARD PROGRAM:

In conformance with Secretary Thompson's vision of "one Department" my office and the HHS Inspector General will be working together to incorporate common controls over the purchase card program throughout HHS. This will be necessary because, authorization and implementation of the purchase program occurred at a time when HHS was undergoing a movement towards de-centralization of its management controls. The Office of Acquisition Management did issue general policy guidance to all HHS components when the purchase card program first began and also required that each component put its own, more detailed procedures in place. While all of our operating components provide training and oversight of the program, their methodologies differ. It is the Office of Acquisition Management which interfaces with the bank when our components experience problems and collects management data for the whole Department.

As I mentioned, the Office of Acquisition Management began establishing policies for use of government purchase cards and user training material in the late 1980s. From then to the present our program has focused on six key elements:

- Responsibilities of Card Holders
- Responsibilities of Approving Officials
- Training
- Point-of-Sale Controls
- Audit and Review
- Problem Notification Procedures

The Office of Acquisition Management has not conducted an independent review of the HHS purchase card program since the passage of the procurement streamlining legislation in 1994. However, even though the 1994 act which created "micro-purchases" does not require program reviews, the Office of Acquisition Management (OAM) did work with the General Accounting Office on its August 1996 report on Purchase Card Use. That report established that the purchase program has enabled agencies to support missions at reduced costs and time, and recommended more effective acquisition government-wide guidance on usage of the card. And in 1998, OAM assisted the then Inspector General in her review of the purchase card program at the Food and Drug Administration which report found, "...that FDA followed general guideline provided by the General Services Administration for the use of credit cards and designated and implemented adequate management controls over their use..."

TRAINING:

All of our operating divisions require training prior to the issuance of a card to a card holder. Our training was developed in house, but may also include interactive computer training based on a CD-ROM developed by a strategic partnership between HHS, the General Services Administration, and the Federal Acquisition Institute. Instruction is provided by procurement personnel from our operational offices. Approving officials are also required to take the training.

PURCHASE CONTROLS:

The transactions of each card holder are reviewed monthly by an approving official. Each operating division conducts a manual review of the transactions at a level above the approving official. In some cases this manual review is aided by computer software which assists in targeting specific reviews by looking for such things as specific vendor names and multiple transactions at the same vendor in short time frames.

All HHS purchase Cards have "point-of-sale" electronic limitations such as blocking of certain merchant categories; imposing a monthly purchase ceiling; and single purchase dollar controls. These controls for merchant categories are necessarily broad in many cases. It is also the case that, while airlines, hotels and restaurants are generally off-limits to purchase card transactions, renting a hotel conference room for a training class would be legitimate transaction. (While micro-purchase authority is authorized to \$2,500 some HHS cards have lower single purchase limits.) Lifting or changing these controls may only be authorized by the procurement offi-

cial who has cognizance. (US Bank refers to this person as the Agency Program Coordinator or APC.)

PROBLEM NOTIFICATION PROCEDURES:

The Centers for Disease Control, the Indian Health Service, the National Institutes of Health, and the Center for Medicare and Medicaid Services manage the purchase program in these operational divisions. Our program Support Center manages the program for all other components of the Department.

At the CDC the finance office has responsibility for audits of cardholder accounts. However, the procurement office is notified of any problematic findings. Procurement officials have the lead at the other four components. Most auditing is conducted on a random basis and done monthly; however, the NIH has a small number of card holders who have purchasing authority above the micro-purchase threshold and these cards are subject to a 100% monthly review.

All components suspend cards when deemed necessary. Notification of the Inspector General is not now automatic and is a judgement call by the procurement official.

CONCLUSION:

In preparing for this testimony, I had occasion to review past records on the purchase card program and I would note that the program has grown a generation since 1994 when HHS had only 450 cards in use, to today's 7,500 card portfolio.

I appreciate this opportunity to participate in efforts to bring about improvements to HHS programs and operations. The purchase card is an important business process tool. Its process efficiencies have eliminated millions of associated administrative actions which would be necessary not only for the issuance of the orders, but also which would be needed to process the invoices and payments associated with these orders.

I concur with our Inspector General and her conclusion that HHS currently lacks centralized policy, and I look forward to working with the Inspector General and all other appropriate parties in continued efforts to ensure proper and productive use of this purchasing tool.

Thank you for the opportunity to appear before you today.

I welcome your questions.

Mr. GREENWOOD. Thank you, Mr. Weisman.

The Chair recognizes himself for 10 minutes to inquire.

Let me start with you, Mr. Price, because you are sort of the real deal. You are the guy on the front lines there, and let's talk about Mr. Nicholas.

How long did it take from the time that Mr. Nicholas first began to defraud the Federal Government until you caught him?

Mr. PRICE. If my memory serves me correctly, we first received notification about 6 weeks after the first purchase.

Mr. GREENWOOD. Okay. So was there a missed opportunity? In other words, as I understood, as you told the tale, you were notified that he had not filled out some paper work; is that right? He had not?

Mr. PRICE. The procedure at the time was if there was a purchase to be made or at the end of the billing cycle when the employee received their statement, the statement and all back-up documentation was given to in this case myself, the approving official. I would verify everything.

The cardholder statement was sent directly to the employee. It was not sent to the approving official concurrently. A month later, because the Finance Office reconciles everything, they noticed that they had not received the statement from the employee, and this is the Commerce procedure.

And when I saw the report letting me know that the employee had not submitted the statement, that is when I knew that we had an issue.

Mr. GREENWOOD. Details in this case provided by your Inspector General indicated that some of—I said Mr. Nicholas. It is Ms. Nicholas. I apologize—some of her charges were fees for personal services. What personal services?

Mr. PRICE. If my memory serves me correctly, on the statement there were services related to, I believe, college or some sort of graduate classes. Personal services and bear with me, sir, I do not understand the term “personal services” the way you are putting it, but she did purchase different services, whether they were from restaurants or from a trip on the Odyssey. I mean there were certain services purchased.

Mr. GREENWOOD. A trip on the what?

Mr. PRICE. The Odyssey. I will explain. The Odyssey is a ship that departs down from the DC waterfront, and it is a quite an expensive tour that you can sail up and down the Potomac River.

Mr. GREENWOOD. In your view, where is the breakdown in internal controls that allowed her to perpetrate this fraud?

Mr. PRICE. I will say that we trusted the employee, but from the operational aspect a breakdown was not having, at that time, the on-line mechanism that we have now where agency purchase card coordinators can monitor the purchases on a consistent basis.

Previously, it was a month or so later before we could find out that there was potential for fraud.

Mr. GREENWOOD. You indicated in your testimony that one of the things that caused the red flag for you was that when you were informed that she had not signed or submitted her statement, that you had not assigned her to any work where she would have needed to make any purchases to begin with.

Mr. PRICE. That is correct.

Mr. GREENWOOD. So why did she have a purchase card?

Mr. PRICE. It was decided as part of the office policy, that the purchase card for a procurement professional is just one tool. By her being a contract specialist, she may have to buy via an actual contract document or she could use the purchase card as a tool to acquire these goods and services.

Moreover, in this particular case, it was the policy based on the decision of the Division Director, at that time, to provide the cards to the employees.

Mr. GREENWOOD. Well, how do you make a determination which employees have cards and which do not? I am still a little confused because she was not assigned work you said that would have required any purchases whatsoever.

Mr. PRICE. No, I did not assign her any work that required her to use the card. She was assigned work.

Mr. GREENWOOD. Right.

Mr. PRICE. But in this particular case, she had just recently received the card and there was no need for her to use the card for any assignment.

Mr. GREENWOOD. So the question is why did she need the card to begin with.

Mr. PRICE. I would defer back to the decision of the Division Director at that time.

Mr. GREENWOOD. Which is what?

I am trying to get at was a decision made to just sort of carte blanche give cards to a whole group of employees whether they had actual immediate need for them or not. Is that what happened?

Mr. PRICE. I do not remember the actual basis for the decision.

Mr. GREENWOOD. Well, how does it work now in your shop? Do your employees have cards? Are there employees in your shop that work for you under your direct supervision who have purchase cards and seem to have no need for them?

Mr. PRICE. There may be occasions when an employee would not have to use the card for a month or longer, but inevitably they would use the card.

Mr. GREENWOOD. Okay. How quickly were the new procedures referenced in your testimony instituted?

Mr. PRICE. Based on these new procedures, by going through the investigation with the Office of Inspector General, we began those procedures, and I believe the IG's case stated approximately April of the following year or we notified them that these procedures had taken place. I do not remember the exact day when the procedures began.

Mr. GREENWOOD. Okay. Thank you, Mr. Price.

Mr. Sade, does each of the DOC field offices have its own set of purchase card procedures?

Mr. SADE. Yes.

Mr. GREENWOOD. And who oversees the Purchase Card Program at the field offices?

Mr. SADE. At the field offices what we have is our organizational structure, the majority of the field offices are overseen by National Oceanic and Atmospheric Administration through their Administrative Support Centers. At each of those centers we have the head of a Contracting Office, and they are responsible through their own purchase card coordinator at that location to implement their own internal reviews, et cetera, and then that raises up to the bureau level and then to the department level.

And then we have the Bank Card Center that oversees everything Mr. GREENWOOD. Okay. Mr. Mournighan, in your testimony you state that no applicable procurement regulations contain requirements for purchase card transactions by contractors. What exactly does this mean? Do the contractors set standards for their employees for card use?

And if so, on what basis are these standards set?

Mr. MOURNIGHAN. First off, again, as has been pointed out by Mr. Tauzin, these are private firms who manage and operate our facilities under a contract. They have their own commercial systems, Lockheed Martin, Bechtel Corporation, in the way they do business.

We have set standards and criteria for their purchasing systems. We review and approve their purchasing systems as they are carried out at the department's national laboratories and production facilities.

So there is a review process. We do set standards. We do make sure that there are appropriate checks and balances in their systems.

Mr. GREENWOOD. Well, can you elaborate on what those kinds of appropriate checks and balances are?

Mr. MOURNIGHAN. Particularly independence. Okay? That is a key factor in any purchasing system. There should be obviously more than one person involved in the purchase. If someone wants to buy something, it's a requisitioner to buy something. It should go through a supervisor. It should go through some type of—

Mr. GREENWOOD. Let me ask you this question.

Mr. MOURNIGHAN. Yes.

Mr. GREENWOOD. In the Department of Energy, looking at all of its contractors—

Mr. MOURNIGHAN. Correct.

Mr. GREENWOOD. [continuing] is every purchase made with a purchase card subject to a review by a second person?

Mr. MOURNIGHAN. That I cannot guarantee. I cannot guarantee that, no.

Mr. GREENWOOD. Okay. So then I have to back up. Let's go back up to the previous question. You said that is an important element.

Mr. MOURNIGHAN. That is an important aspect of every purchasing system. That is correct, sir.

Mr. GREENWOOD. So why does the Department of Energy not have in place a requirement for its contractors that says if your employees are not employees of the Federal Government are going to have a purchase card by which they can directly obligate the United States Treasury, that every single purchase and every single instance must be checked off by a second employee?

Mr. MOURNIGHAN. We certainly can do that, sir. One of the things we have to recognize is that we are dealing with private companies, and they have certain procedures.

Mr. GREENWOOD. Well, wait a minute, wait a minute, wait a minute. They are private companies.

Mr. MOURNIGHAN. Right.

Mr. GREENWOOD. Who may or may not have the privilege of doing business with the United States of America.

Mr. MOURNIGHAN. That's correct.

Mr. GREENWOOD. And so we are purchasing their services.

Mr. MOURNIGHAN. Correct.

Mr. GREENWOOD. So what is the hard part in saying to them—

Mr. MOURNIGHAN. None. No hard part whatsoever.

Mr. GREENWOOD. Then I do not understand your previous statement in which you said, well, you have to remember these are private companies.

Mr. MOURNIGHAN. Well, again, the point I was trying to make is that they do not have to follow the Federal Acquisition Regulations or the Federal regulations. So they do have certain flexibilities.

My point is in making the statement whereas the Department of Energy—

Mr. GREENWOOD. Let's make this a little bit more simple.

Mr. MOURNIGHAN. Okay.

Mr. GREENWOOD. I want the Department of Energy to have in place a policy for its contractors that says, "We will reimburse you for zero purchase card purchases that are not approved by a second employee in your firm."

Mr. MOURNIGHAN. That is fine.

Mr. GREENWOOD. Is there any reason why we cannot do that?

Mr. MOURNIGHAN. None whatsoever.

Mr. GREENWOOD. But we have not done that.

Mr. MOURNIGHAN. Let's put it this way. We have not made that specific requirement. That is correct.

Mr. GREENWOOD. Why not?

Mr. MOURNIGHAN. Because we looked at the criteria that we have used in the past and continue to use, which is appropriateness of the checks and balances at various levels.

Mr. GREENWOOD. But you just told me, and I am not trying to be difficult with you.

Mr. MOURNIGHAN. Okay.

Mr. GREENWOOD. I am just trying to understand this.

Mr. MOURNIGHAN. Yes.

Mr. GREENWOOD. You told me that one of the most important kinds of standards one could have, which makes plenty of sense to me, is two people have to sign off on a procurement.

Mr. MOURNIGHAN. That is correct.

Mr. GREENWOOD. And you either have to have two cheaters, which is always more difficult to get, than one.

Mr. MOURNIGHAN. Right, right.

Mr. GREENWOOD. So I ask you: could you require that of all contractors?

Mr. MOURNIGHAN. Yes, sir, yes.

Mr. GREENWOOD. And you said you could.

Mr. MOURNIGHAN. Yes.

Mr. GREENWOOD. I said do you, and you said no.

Mr. MOURNIGHAN. The answer is no.

Mr. GREENWOOD. I asked you why not, and I am having a hard time understanding the why not, why it is that the first thing you would do would not be the one you have already identified.

Mr. MOURNIGHAN. Mr. Chairman, we certainly can do that, and we will do that.

Mr. GREENWOOD. We are going to hold you to that.

Mr. MOURNIGHAN. That is fine.

Mr. GREENWOOD. We are going to be in touch with you in the future.

Mr. MOURNIGHAN. That is fine.

Mr. GREENWOOD. And we are going to see the speed at which you accomplish that.

Thank you.

The Chair recognizes the gentleman from Florida, Mr. Deutsch.

Mr. DEUTSCH. Thank you.

Mr. Sade, would you explain the warrant program?

Mr. SADE. Our warrant program?

Mr. DEUTSCH. Yes.

Mr. SADE. Yes, sir. That is a program that is tied to our career management program in which we require certain training levels and educational levels for various levels of people within the procurement arena that would then get them a certain level warrant. That gives them the ability to sign or obligate the government.

Mr. DEUTSCH. Mr. Mournighan, can you explain why the Department of Energy has no idea how many purchase credit cards it has issued to its contractors?

Mr. MOURNIGHAN. First off, the Department of Energy does not issue the credit cards to the contractors. The contractor is author-

ized to use a purchase card system. He can use either the Smart Pay Program or they can use their own commercial system. It is a contract between the contractor, for instance Lockheed Martin, and a bank.

The government, the Department of Energy does not issue those credit cards.

Mr. DEUTSCH. Okay. And so if they are getting them on their own through the bank——

Mr. MOURNIGHAN. Correct.

Mr. DEUTSCH. [continuing] the Federal Government is still ultimately responsible, and in fact, they are getting them on the credit of the United States.

Mr. MOURNIGHAN. Well, let's put it this way. Not again to be pejorative, but the contractor is required to carry out the terms and conditions of the contract and the work at the site. If the contractor incurs costs which are appropriate and allowable under the contract, he is reimbursed by the government, by the Department of Energy.

If the contractor, and the Inspector General found seven cases of misuse, you do not pay. You simply disallow the cost, and the money comes out of the pocket of the contractor.

Mr. DEUTSCH. So, again, I mean, the bottom line is you do not have any idea how many cards it is?

Mr. MOURNIGHAN. I do not have any idea about the number of contractor cards issued by other than the Bank of America under the Smart Pay Program. That is correct. In other words, under the Smart Pay Program, if our contractors have entered into a contract with Bank of America under the Smart Pay Program, we know from the Bank of America how many cards have been issued, but if they are under their own private contracts with another bank, no, I do not.

Mr. DEUTSCH. I mean, are you happy with that? Do you think that needs to change?

Mr. MOURNIGHAN. I think the issue of numbers does not need to change. I think that what we have to do is get better oversight of the expenditures of the Purchase Card Program. I think one of the things that Mr. Friedman sold himself short on a little bit is that he does have an audit program. These programs are audited by his office, and actually it is called the Cooperative Audit Program.

Mr. DEUTSCH. Can you be any more specific about how you are going to get control over this issue?

Mr. MOURNIGHAN. Again, we look at the contractor who is operating a commercial system. He issues his cards based upon what he feels are the needs of the work, the site.

I will give you a couple of examples. We have the Lawrence Livermore National Laboratory. It is a site confined to one mile square. It is in a suburban area. There are 7,000 employees. They have issued about 300 cards.

We have another site, the Nevada Test Site. The Nevada Test Site is the size of the State of Rhode Island. That contractor has made a judgment that his people operating in very disparate or dispersed areas, that it does not make sense for them at all times when they need something to come back to the headquarters site. So he perhaps has issued more cards than average.

But right now as far as we would look to, you know, our oversight of that contractor's purchasing system, whether he has issued cards, in our opinion, which are reasonable and fit the needs of his organization in accomplishing the mission of that contract.

Mr. DEUTSCH. For the last decade DOE has been attempting to decentralized and move more and more authority to the field offices. Are these cards approved at the field office level?

Mr. MOURNIGHAN. First off, let's differentiate between the Federal offices and the contractors. At each Federal office, there is a Federal purchase card coordinator. That person reviews—if someone wants a purchase card, they make an application for the need and the amount and any other authority, and that person, by the way, works for the procurement office; so the contracting officer is reviewing this.

Mr. DEUTSCH. Is it done the same at all of the field offices?

Mr. MOURNIGHAN. Yes, for the most part. Let's put it this way. Yes, we have procedures in place, and the field offices have told me that they are following those procedures. So for the Federal offices, the answer is yes. That is the process.

Mr. DEUTSCH. Do we know how many cards have been approved at different field offices?

Mr. MOURNIGHAN. Yes, I do. For the Federal offices, I can give you a computer run if you wish. The department has within its Federal staff about 2,000 purchase cards, a little over 2,000 purchase cards.

Mr. DEUTSCH. The fraud that the DOE Inspector General has found has generally been involved with contractors.

Mr. MOURNIGHAN. Right.

Mr. DEUTSCH. What are you going about this or specifically with the cards, or is there anything that you are doing about this?

Mr. MOURNIGHAN. Well, again, what we do do is we have set specific criteria for measuring or analyzing their purchasing systems. We go in at least every 3 years and review the purchasing systems and see are they following their own policies and procedures to have the appropriate checks and balances.

If they are not, then what we do is we demand changes to those systems. If any misuse—and I want to emphasize this—if there is any misuse, the government does not pay. We disallow the cost.

Mr. GREENWOOD. Will the gentleman yield?

Mr. DEUTSCH. I will.

Mr. GREENWOOD. That is an important statement you have made.

Mr. MOURNIGHAN. Yes.

Mr. GREENWOOD. If there is any misuse that is detected.

Mr. MOURNIGHAN. That is correct.

Mr. GREENWOOD. The government does not pay.

Mr. MOURNIGHAN. That is correct.

Mr. GREENWOOD. There could be misuse by the gazillions that the government would pay if you do not have an adequate system to notice it.

Mr. MOURNIGHAN. We believe we have an adequate system of oversight, and the Inspector General has an adequate system of audit.

Mr. DEUTSCH. Ms. Styles of OMB submitted testimony in which she says she is going to check the Federal Acquisition Regulations to see if the issuing of the cards to contractors is legal. Have you checked these regulations to see if these cards are appropriately issued through the contractors?

Mr. MOURNIGHAN. I think, and I can just breeze through Ms. Styles' testimony, is that it certainly is legal for the contractors. We have authorized the contractors to use the Smart Pay system. Some chose to; some did not. Issuing the cards is a responsibility, and under the terms and conditions of the contract between the contractor, Lockheed Martin and Bechtel, and the Bank of America.

Mr. DEUTSCH. Let me just follow up on that. You said you looked at Ms. Styles' testimony?

Mr. MOURNIGHAN. Just briefly.

Mr. DEUTSCH. I guess my question was more specific. She raises some legal issues. Have you, you know, General Counsel looked at this?

Because, again, apparently at least you are somewhat unique in agencies in issuing cards to the contractors.

Mr. MOURNIGHAN. I am sure we are. Right, correct. I can have our General Counsel look at it again, but I believe that there are standard terms and conditions in our contracts which authorize the contractor to use the Federal supply schedule.

Mr. DEUTSCH. Again, in terms of the contractors, I think we have gotten enough testimony for me to understand that the contractors are using their own internal systems.

Mr. MOURNIGHAN. That is correct.

Mr. DEUTSCH. Is there any reason that they should have an identical policy to that of the department in terms of the use of these cards?

Mr. MOURNIGHAN. I think what you would find, sir, is that that would involve more inefficiency.

An identical system to the way that the Federal Government does? I think we would really have to study that.

Mr. DEUTSCH. Well, what about in sort of just an identical procedure, identical policy in terms of who has cards, that type of thing, within parameters?

Mr. MOURNIGHAN. Well, again, I think we have the parameters in place as to what is the appropriate checks and balances in the system.

Mr. DEUTSCH. I just want to be clear on this, too, that the changes that DOE guidelines that were made in the last 6 months, they do not apply to the contractor?

Mr. MOURNIGHAN. That is correct. Those are Federal employees.

Mr. DEUTSCH. Thank you.

Mr. GREENWOOD. Let me just ask Mr. Mournighan.

Mr. MOURNIGHAN. Sure.

Mr. GREENWOOD. If an employee of a contractor for DOE has a credit card and the employee needs a digital camera to do his job—

Mr. MOURNIGHAN. Correct.

Mr. GREENWOOD. [continuing] an employee takes the credit card, and he goes out and he buys two digital cameras, and he uses one for work and gives the other one to his wife for Christmas. Okay?

Mr. MOURNIGHAN. Okay.

Mr. GREENWOOD. Tell me how your system would—and that invoice, the bill, the bill comes into DOE and gets paid. How do you catch that?

Mr. MOURNIGHAN. Okay. First off, we are talking about a contractor employee.

Mr. GREENWOOD. Yes.

Mr. MOURNIGHAN. So the bill does not come to DOE. Okay?

Mr. GREENWOOD. Right.

Mr. MOURNIGHAN. Now, take the example of one of the Inspector General's cases in Idaho. In that particular case, they have an approving official. The person who wants to buy something goes and gets his supervisor's approval.

Mr. GREENWOOD. The supervisor is a contractor employee?

Mr. MOURNIGHAN. These are all contractor employees.

Okay. Gets the supervisor to approve it. The authorization is then given, and the purchase cardholder then goes and buys it.

Mr. GREENWOOD. So that is the circumstance where, as you and I talked about earlier, there is a second person——

Mr. MOURNIGHAN. Two, that is correct. And in Idaho that is the case.

Mr. GREENWOOD. But in the case where there is no second person, what happens?

Mr. MOURNIGHAN. In the case where there would not be a second person, the cardholder would be responsible for bringing the property to the site and reconciling his bill with a receiving report when he sent the bill to his supervisor for approval.

Mr. GREENWOOD. All right. The Chair recognizes the gentleman from North Carolina for 10 minutes to inquire.

Mr. BURR. Well, I have got to say, Mr. Chairman, that I am somewhat amazed. This whole thing just absolutely mystifies me. I will try to ask some pertinent questions, but let me just tell the four of you the little bit that I have read and the little bit that I have heard, and I apologize for my tardiness because there is more than one thing going on today, but the difficulty at explaining the process that we have might be an indication of just how screwed up it is.

If it that hard to explain, how can we expect somebody to live by it, and if you do have people who are trying to actually have personal gain out of the access to these cards, they must have thought it was Christmas every day when they saw how difficult this was because it probably did not take long to figure out how to, in fact, produce the right type of documentation based upon the scenario they were in.

Let me ask you, Mr. Mournighan. Some of the data received by this committee last year revealed some rather alarming numbers from DOE field offices. For instance, at the Kaiser Hill facility, all 149 cardholders have a monthly purchase limit of \$500,000.

Can you help me to understand this?

Mr. MOURNIGHAN. One, I doubt that is the case. Okay?

Mr. BURR. I trust that you doubt it is the case, but since you do not know and I have reason to believe it is true, I will assume that I am correct and you have not checked.

Mr. MOURNIGHAN. Let's put it this way. Kaiser Hill operates under the Smart Pay Program. I have reviewed all of the purchase cards authorities, and I did not see anyone at Kaiser Hill—now, of course, I may have missed it—but I did not see anyone with a \$500,000 authority.

Mr. BURR. Clearly, there is a track record that some things have been missed. That is the purpose of this hearing.

Mr. MOURNIGHAN. Correct.

Mr. BURR. So we will go back through out data. If I find those 149 cardholders, I will certainly make sure that the documentation that we have is supplied to the Department of Energy so they can look at the Department of Energy's contractor, who in fact has these cards.

Mr. MOURNIGHAN. Well, I can assure you that I am going to go back right now and look at these.

Mr. BURR. Let me ask you. There are 301 cardholders at headquarters at least at the time of the document request we made, July 2001, and they had monthly limits of \$999,000. Now, those are DOE documents received here July 2001.

And I guess I would ask you: why is it necessary that this many people have a limit this excessive?

Mr. MOURNIGHAN. The \$999,000 is the total credit limit that the cardholder would have.

Mr. BURR. Okay.

Mr. MOURNIGHAN. They are authorized to buy—their individual credit limits depend upon usually the \$2,500 or less.

Mr. BURR. Let me make sure I understand you correctly. There are 301 cardholders within the DOE headquarters who have a limit that is \$1 short of a million dollars, and they cannot exceed that on a monthly basis.

Mr. MOURNIGHAN. Okay. The lady in back of me is the purchase coordinator at headquarters, and she tells me that that is the over-all agency limit.

Mr. BURR. Per card or as a combination of all 301 cards?

Mr. MOURNIGHAN. The answer is that that is the monthly credit limit of the cardholder. That is correct.

Mr. BURR. Of the cardholder.

Mr. MOURNIGHAN. Correct.

Mr. BURR. Singular.

Mr. MOURNIGHAN. Right.

Mr. BURR. So there are 301 cardholders at DOE who have the capabilities to all charge \$1 shy of a million dollars per month, and in a year's time that's \$12 shy of \$12 million per cardholder times 301.

Mr. MOURNIGHAN. Well—

Mr. BURR. Now, explain to me the answer to my question. What would necessitate 301 people at the Department of Energy to have a card, No. 1, which I think would be my first question; and, two, to have a \$1 million credit limit per month?

Mr. MOURNIGHAN. One, the answer is that they should not. Okay?

Mr. BURR. That they what?

Mr. MOURNIGHAN. They should not.

Mr. BURR. Okay.

Mr. MOURNIGHAN. And I can tell you that on April 8 I started a review of every purchase card in the Department of Energy held by Federal employees to look at (a) do they need the card; (b) what are their credit limits.

Now, to pick up on your point, yes, they have authority up to \$999,000, but no one has the authority—excuse me. I want to correct myself. There are certain people at headquarters who do have authority over \$25,000. Most have authority less than that.

In each—

Mr. BURR. But authority and credit limit are two different things, correct?

Mr. MOURNIGHAN. Excuse me?

Mr. BURR. Authority and credit limit are two different things, correct?

Mr. MOURNIGHAN. Authority, well, they have a single purchase limit of no more than \$25,000, with certain exceptions.

Mr. BURR. There was nobody that our committee found to have used the card fraudulently that had the authority to use it fraudulently; is that correct?

Nobody had the authority to make personal purchases on their credit card, correct?

Mr. MOURNIGHAN. Certainly not.

Mr. BURR. So if somebody does not have the authority to exceed \$25,000, that does not mean that they cannot exceed \$25,000. The only thing that would trigger a denial of their purchase is, in fact, if they reached their credit limit, which is \$1 shy of a million dollars per month.

Mr. MOURNIGHAN. Well, no. At headquarters we have very strict guidelines on purchasing. As I was talking to the Chairman, every time someone wants to buy something, one, they have to get their supervisor's approval; two, they have to get a budget analyst's approval that the funds are available; three, it goes on to the purchase cardholder; four, when the good is received, it has to come to one central place in headquarters, at the loading dock in the Forestal Building or the loading dock out in Germantown. Okay?

The property people when you make the purchase, the property people are notified to expect a delivery. When that delivery comes in, the item is logged into the property system. It is tagged, and then it is delivered.

So there are at least five people involved in every purchase activity, four or five people. So the answer to the question is could someone theoretically create a fraudulent case? Yes, but at headquarters we think it is really difficult.

Mr. BURR. I wish I held your level of confidence. Unfortunately I just do not.

Let me ask all of you. Do you review any of the IG's audits, his inspections or investigation reports?

If you do not, what procurement officials do? Let me start at the end of the table.

Mr. SADE. Sure. I do review them as they come in. As Mr. Frazier indicated earlier, he does share those reports, what is final with our organization as well as the organization that he reviewed.

Those reports go from me. They also are shared with our Bank Card Center. They are shared with the policy people that review and establish and revise the policy within our department. We are always looking for mechanisms, and those that usually point the way to evolve the program to insure that we can close some of the holes in the program.

Mr. BURR. Mr. Price.

Mr. PRICE. Yes, I review them, and as Mr. Sade mentioned, as an employee of Commerce, we do review everything. Each time the IG comes out with a report related to this, we will make necessary corrections.

The incident that triggered this did come from us doing a review of the processes and changing our processes to reduce the risk of this happening again.

Mr. BURR. Mr. Mournighan.

Mr. MOURNIGHAN. The answer to the question is, yes, we do review those reports. For the most part, if you noted, they are dealing with the contractors, and what we have done, I have done is told the contracting officers that the dollar amounts that are not recovered in restitution by the contractor, the costs are disallowed. We do not pay them. We do review them, and we do take action on them.

Mr. BURR. You know, this is the skeptic side of me. I cannot imagine a contractor caring about a credit card because we are giving them a blank check anyway. So it really is difficult for me to understand why they would scam us on a credit card when they just go through the normal means and we pay whatever, in fact, they put down on the billing.

I'm going to skip you, Mr. Weisman, real quick because I know my time is out, and I want to ask Commerce and Energy: do you have individuals who have multiple credit cards? Could any of the examples that I have presented to you where I said to Mr. Mournighan that within the Department of Energy at headquarters, the 301 individuals, they have a credit limit of \$1 less than a million dollars on a monthly basis.

Is it remotely possible that any of these individuals could have more than one card?

Mr. SADE. At Commerce there was a practice at one time, particularly when our procurement folks were serving other bureaus that may have had multiple pain offices and so they would have a credit card for the bureaus that were serviced by each of those payment offices.

That has been reduced, and we no longer have that. I cannot guarantee today because I have not looked at the records whether we have any existing cardholders with multiple cards.

Mr. BURR. I think it is a vitally important question that I ask, and I would urge you to go back.

Mr. MOURNIGHAN. We will go back and look at that immediately.

Mr. BURR. Thank you.

Mr. MOURNIGHAN. I think at the Federal contractor level we are very sure that there are no people with two cards; that the

issuance of cards is a very strict procedure. People have to make an application. They have to show that they have been trained. They have to have their supervisor's approval that there is a need for the card.

And based upon that, we believe that for the Federal offices, we will not be issuing two cards to anyone.

Mr. BURR. I do not have the documentation here, but if our staff has it, I will certainly try to provide it for both agencies as it relates to the multiple credit card possession that individuals have. I will assure you that we have information that suggests not only are there, that it is not singular from the standpoint of those that possess it, and in some cases they possess up to 12 credit cards, not two, 12.

And I would tell you that for that to get overlooked as we review credit card abuses and purchase abuses it is difficult for me to believe. I would share with you, and I would also provide for the record, Mr. Chairman, and I would ask unanimous consent that this be part of the record if it is not already, the report that we have on Kaiser Hill, Rocky Flats, Colorado, where I have no counted them, but I feel confident that it counts up to 149 that I talked about with every individual's name, their possession, their section of employment, the single purchase limit of their credit card, and this document would show that every card listed in their possession has a cycle limit of \$500,000.

Mr. MOURNIGHAN. When you say a cycle limit, do you mean a monthly expenditure limit?

Mr. BURR. I would say a monthly limit, yes. I am sorry.

Mr. MOURNIGHAN. Not a single purchase limit.

Mr. BURR. The single purchase limits are \$10,000 with several exceptions, one being a \$200,000 single purchase limit, others in the 25 range.

Mr. MOURNIGHAN. Correct.

Mr. BURR. But all monthly limits are \$500,000 of all 149 individuals that I would assume are contractors.

Mr. MOURNIGHAN. Yes, contract employees, correct.

Mr. GREENWOOD. Without objection, the document will be incorporated into the record.

The time of the gentleman has expired.

Mr. BURR. And I thank the gentleman for the time and yield back.

Mr. GREENWOOD. The Chair thanks the gentleman. The Chair thanks the panel for your testimony and your assistance today, and you are excused with apologies to the next panel. We are going to have to take approximately a 30 minute recess prior to the testimony from the third panel.

So the committee will recess until 10 minutes after on.

[Brief recess.]

Mr. GREENWOOD. Good afternoon. I apologize for the delay. We had some votes on the floor of the house. So that added to the extension. I hope that you have had time to grab a bite to eat.

We welcome the third and final panel, and they are the Honorable Linda Calbom, Director of Financial Management and Insurance, U.S. General Accounting Office; Ms. Patricia Mead, Acting Assistant Commissioner, Office of Acquisition, U.S. General Serv-

ices Administration; and the Honorable Angela B. Styles, Administrator for Federal Procurement Policy, U.S. Office of Management and Budget.

Welcome to each of you. As you heard me say to the other witnesses, this is an investigative hearing, and it is our custom to take testimony under oath. Do any of you object to giving your testimony under oath?

The PARTICIPANTS. No.

Mr. GREENWOOD. Under the rules of the committee and the House, you are entitled to be represented by counsel. Do any of you wish to be represented by counsel as you give your testimony?

The PARTICIPANTS. No.

Mr. GREENWOOD. Okay. So if you will stand and raise your right hand.

[Witnesses sworn.]

Mr. GREENWOOD. Okay. Thank you. You are under oath.

And, Ms. Calbom, is that how I pronounce it?

Ms. CALBOM. Yes.

Mr. GREENWOOD. Thank you. You are recognized to give your testimony.

TESTIMONY OF LINDA M. CALBOM, DIRECTOR, FINANCIAL MANAGEMENT AND INSURANCE, U.S. GENERAL ACCOUNTING OFFICE; PATRICIA MEAD, ACTING ASSISTANT COMMISSIONER, OFFICE OF ACQUISITION, U.S. GENERAL SERVICES ADMINISTRATION; AND HON. ANGELA B. STYLES, ADMINISTRATOR FOR FEDERAL PROCUREMENT POLICY, U.S. OFFICE OF MANAGEMENT AND BUDGET

Ms. CALBOM. Thank you.

Mr. Chairman, I am pleased to be here today to discuss GAO's reviews of the government Purchase Card Programs at two Federal agencies and how the control witnesses we identified made these agencies vulnerable to improper or questionable purchases.

As you have heard today, agencies have successfully used purchase cards to save time and money by eliminating much of the bureaucracy and paper work long associated with making small purchases. However, given the nature, scale, and increasing use of purchase cards, it is important that agencies have adequate controls in place to insure that the cards are not misused.

We have issued several reports and testimonies on our purchase card work at two Navy units and the Department of Education that identified internal control weaknesses and resulting fraudulent, improper, abusive and questionable purchases.

In addition, a number of Inspectors General, including those we heard from in the first panel, have identified and reported on control weaknesses and improper purchases in the Purchase Card Programs at their agencies.

Today I will also discuss some of the findings from the Departments of Agriculture, Interior, and Transportation IG reviews.

My testimony today provides a summary discussion of the control weaknesses we and these IGs found in agency Purchase Card Programs, as well as examples of the improper purchases and lost assets that resulted from these weaknesses. I would now like to just

provide a few brief highlights from my written statement, and I request that it be entered in its entirety in the record.

Mr. GREENWOOD. It will be.

Ms. CALBOM. Thank you.

First, just a few comments on control weaknesses. There are three basic weaknesses in the purchase card programs that we and the IGs reviewed. First of all, the review and approval process, and this is really the single most important control for detecting improper purchases and preventing future abuse. Yet across the board, we and IGs found that this key function was not being properly carried out.

Second, training, which is really key to insuring cardholders and approving officials understand their roles and responsibilities under the program. We found that most agencies were delinquent in providing the necessary training for their employees and did not appear to make this a prerequisite for issuing the purchase cards.

And finally, monitoring is an important part of insuring that existing controls are properly functioning. Most of the agencies did little or no monitoring of the program. At the two Navy units we reviewed, management was performing some monitoring, but they were not taking appropriate action in response to their findings, which included many of the same types of problems that we identified.

Taken together, these control weaknesses create an environment where misuse of the purchase cards can go on with little chance of detection. Let me just give you a few examples now of the misuse.

At Education, we found that a cardholder made several fraudulent purchases from two Internet sites for pornographic services. The name of one of the sites that appeared on the monthly statement, slavelaborproductions.com, should have caused suspicion had the approving official been paying attention.

In another example, at one of the Navy units, we identified over \$33,000 in purchases of high cost designer leather goods from Franklin Covey and Louis Vuitton. These purchases included briefcases, totes, portfolios, palm pilot cases, wallets, and purses that were certainly of questionable government need and should have been paid for by the individual.

Transportation's IG reported two cases involving employees' fraudulent use of purchase cards. In one case a cardholder used the government purchase card to buy over \$80,000 in computer software for a personal business.

In another case, the cardholder made more than \$58,000 in unauthorized charges, including purchases of a home stereo system and a new engine for his car.

Interior's IG identified numerous fraudulent purchases, including payments for monthly rent, phone bills, furnishings, jewelry, and repairs to personal vehicles.

Mr. Chairman, most, if not all, of these abusive purchases could have been avoided if the agencies just had basic controls in place over their Purchase Card Programs. We and IGs have made recommendations along these lines.

Agencies have taken corrective actions in many cases, but at least at Education and Navy, we found that more needs to be done,

particularly in the review and approval area, which, again, is so key to the oversight of this purchase card activity.

In closing, Mr. Chairman, I want to again point out that we are supportive of the purchase card program, and we believe it has been very beneficial in reducing costs associated with small purchases. However, the control weaknesses and the resulting abusive practices, if not checked, could dilute the benefits of the program.

While the amount of fraud and abuse we and the IGs have identified so far is relatively small compared to the total purchases each year, they represent major vulnerabilities that could be easily exploited to a greater extent. Thus, it is important that actions be taken to strengthen controls, reduce vulnerability, and maximize benefits of the Purchase Card Program.

That concludes my statement, Mr. Chairman.

[The prepared statement of Linda M. Calbom follows:]

PREPARED STATEMENT OF LINDA M. CALBOM, DIRECTOR, FINANCIAL MANAGEMENT
AND ASSURANCE, U.S. GENERAL ACCOUNTING OFFICE

Mr. Chairman and Members of the Subcommittee: I am pleased to be here today to provide an overview of our reviews of the government purchase card programs at two federal agencies and how the control weaknesses we have identified made these agencies vulnerable to improper or questionable purchases. At the outset, I want to make clear our support in concept for the purchase card program. The use of purchase cards has dramatically increased in past years as agencies have sought to eliminate the bureaucracy and paperwork long associated with making small purchases. The benefits of using purchase cards are lower costs and less red tape for both the government and the vendor community.

At the same time, given the nature, scale, and increasing use of purchase cards, it is important that agencies have adequate internal controls in place to help ensure proper use of purchase cards and thus to protect the government from waste, fraud, and abuse. Our audits to date have identified serious internal control weaknesses. In the past year, we have found improper and fraudulent use of purchase cards at two Navy units reviewed and at the Department of Education.¹ In addition, a number of Inspectors General (IG) have identified and reported on control weaknesses in the purchase card programs at their agencies, including the Departments of Agriculture, the Interior, and Transportation.²

Government purchase cards, a type of credit card, are available to agencies as part of the Governmentwide Commercial Purchase Card Program, which was established to streamline federal agency acquisition processes by providing a low-cost, efficient vehicle for obtaining goods and services directly from vendors. The *Federal Acquisition Regulation*, Part 13, "Simplified Acquisition Procedures," establishes criteria for using purchase cards to place orders and make payments. The Department of the Treasury requires agencies to establish approved uses of the purchase card and to set spending limits. According to the General Services Administration (GSA), which administers the governmentwide contract for this program, in fiscal year 2001, over 400,000 cardholders in about 60 agencies made purchases totaling about \$13.8 billion. Given this widespread usage, you asked us to provide an overview of internal control weaknesses we have found in our reviews of purchase card pro-

¹U.S. General Accounting Office, *Purchase Cards: Control Weaknesses Leave Two Navy Units Vulnerable to Fraud and Abuse*, GAO-01-995T (Washington, D.C.: July 30, 2001); *Purchase Cards: Control Weaknesses Leave Two Navy Units Vulnerable to Fraud and Abuse*, GAO-02-32 (Washington, D.C.: November 30, 2001); *Purchase Cards: Continued Control Weaknesses Leave Two Navy Units Vulnerable to Fraud and Abuse*, GAO-02-506T (Washington, D.C.: March 13, 2002); *Education Financial Management: Weak Internal Controls Led to Instances of Fraud and Other Improper Payments*, GAO-02-406 (Washington, D.C.: March 28, 2002); and *Education Financial Management: Weak Internal Controls Led to Instances of Fraud and Other Improper Payments*, GAO-02-513T (Washington, D.C.: April 10, 2002).

²U.S. Department of Agriculture, Office of Inspector General, *Financial and IT Operations Audit Report: Some Changes Would Further Enhance Purchase Card Management System Internal Controls*, 50099-26-FM (Washington, D.C.: August 2001); U.S. Department of the Interior, Office of Inspector General, *Department of the Interior, Integrated Charge Card Program, 2002-1-0011* (Washington, D.C.: December 2001); and U.S. Department of Transportation, Office of Inspector General, *Use of Government Credit Cards, Department of Transportation*, FI-2001-095 (Washington, D.C.: September 24, 2001).

grams at two Navy units and the Department of Education and improvements needed to correct these weaknesses.

In order to respond to your request, we reviewed our previous reports and testimonies in this area, as well as reports issued by various IGs. In our purchase card program reviews, we assessed the internal controls over two Navy units' and the Department of Education's purchase card programs³ and used forensic auditing techniques, such as database searches, file comparisons, and other detailed analyses to identify unusual transactions and payment patterns.

As you know, internal controls serve as the first line of defense in safeguarding assets and in preventing and detecting fraud, abuse, and errors. Heads of agencies are required to establish a system of internal control consistent with our *Standards for Internal Control in the Federal Government*.⁴ My testimony today discusses some of the common control weaknesses we and the IGs have identified in agency purchase card programs, including weaknesses in the review and approval processes, lack of training for cardholders and approving officials, and ineffective monitoring. These weaknesses created a lax control environment that allowed cardholders to make fraudulent, improper, abusive, and questionable purchases. Weak controls also resulted or contributed to lost, missing, or misused government property. I will now describe some of the problems we found and then provide specific examples of improper payments we and various IGs identified. I will also lay out some of the key recommendations we and the IGs have made to address these problems.

Inadequate Review and Approval Processes

According to our *Standards for Internal Control in the Federal Government*, transactions and other significant events should be authorized and executed only by persons acting within the scope of their authority. Although review of transactions by persons in authority is the principal means of assuring that transactions are valid, we found that the review and approval process for purchase card purchases was inadequate in all the agencies reviewed.

At the Department of Education, we found that 10 of its 14 offices did not require cardholders to obtain authorization prior to making some or all purchases, although Education's policy required that all requests to purchase items over \$1,000 be made in writing to the applicable department executive officer. We also found that approving officials did not use monitoring reports that were available from Bank of America⁵ to identify unusual or unauthorized purchases.

Additionally, Education's 1990 purchase card policy, which was in effect during the time of our review (May 1998 through September 2000), stated that an approving official was to ensure that all purchase card transactions were for authorized Education purchases and in accordance with departmental and other federal regulations. The approving official signified that a cardholder's purchases were appropriate by reviewing and signing monthly statements. To test the effectiveness of Education's approving officials' review, we analyzed 5 months of cardholder statements and found that 37 percent of the 903 monthly cardholder statements we reviewed were not approved by the appropriate official. The unapproved statements totaled about \$1.8 million. Further, we found that Education employees purchased computers using their purchase cards, which was a violation of Education's policy prohibiting the use of purchase cards for this purpose. As I will discuss later, several of the computers that were purchased with purchase cards were not entered in property records, and we could not locate them. If approving officials had been conducting a proper review of monthly statements, the computer purchases could have been identified and the practice halted, perhaps eliminating this computer accountability problem. Education implemented a new approval process during our review. We assessed this new process and found that while approving officials were generally reviewing cardholder statements, those officials were not ensuring that adequate supporting documentation existed for all purchases. Weaknesses in the approval process also existed at the two Navy units we

³ Our initial reviews of purchase card programs covered controls in place and purchases made (1) in fiscal year 2000 for the Navy and (2) from May 1998 through September 2000 for Education. Because both agencies changed their policies and procedures, we performed follow-up work to assess the changes. We reviewed controls in place, including implemented or planned improvements at the two Navy units for fiscal year 2001, and we reviewed a sample of purchase card transactions for the fourth quarter of fiscal year 2001. We also performed follow-up work at Education to review changes to its policies and procedures, and we reviewed purchase card transactions for the fourth quarter of fiscal year 2001.

⁴ U.S. General Accounting Office, *Internal Control: Standards for Internal Control in the Federal Government*, GAO/AIMD-00-21.3.1 (Washington, D.C.: November 1999).

⁵ Bank of America services the purchase card program at Education.

reviewed. During our initial review, approving officials in these two units told us that they did not review support for transactions before certifying monthly statements for payment because (1) they did not have time and (2) Navy policy⁶ did not specifically require that approving officials review support. At one of the Navy units, one approving official was responsible for certifying summary billing statements covering an average of over 700 monthly statements for 1,153 cardholders. Further, Navy's policy allows the approving official to presume that all transactions are proper unless notified to the contrary by the cardholder. The policy appears to improperly assign certifying officer accountability to cardholders and is inconsistent with Department of Defense regulations, which state that certifying officers are responsible for assuring that payments are proper.

During our follow-up review, we found that throughout fiscal year 2001, approving officials in the two units still did not properly review and certify the monthly purchase card statements for payment. Although the Department of Defense Purchase Card Program Management Office issued new guidance in July 2001 that would reduce the number of cardholders for which each approving official was responsible, neither of the two units met the suggested ratio of five to seven cardholders to one approving official until well after the start of fiscal year 2002.⁷ Further, the Department of Defense agreed with our recommendation that Navy revise its policy to assure that approving officials review the monthly statements and the supporting documentation prior to certifying the statements for payment. However, for the last quarter of fiscal year 2001, one of the Navy units continued to inappropriately certify purchase card statements for payment. The other unit issued local guidance that partially implements our recommendation.

IGs at the Departments of Agriculture, the Interior, and Transportation also identified weaknesses in the review and approval processes at these agencies. For example, Agriculture's IG reported that the department has not effectively implemented an oversight tool in its Purchase Card Management System (PCMS), the system that processes purchase card transactions. This tool is an alert system that monitors the database for pre-established conditions that may indicate potential abuse by cardholders. Responsible officials are to periodically access their alert messages and review the details for questionable transactions. These reviewing officials should contact cardholders, if necessary, so that cardholders can verify any discrepancies or provide any additional information in order to resolve individual alert messages. In order to close out alert messages, reviewers must change the message status to "read" and explain any necessary details to resolve the alerts. According to Agriculture's IG, only about 29,600 out of 50,500 alerts in the database during fiscal years 1999 and 2000 had been read as of January 9, 2001, and only about 6,100 of the alerts that were read contained responses. The inconsistent use of this oversight tool means that Agriculture management has reduced assurance that errors and abuse are promptly detected and that cardholders are complying with purchase card and procurement regulations.

Interior's IG reported that it reviewed the work of 53 reviewing officials and found that 42 of them performed inadequate reviews. The IG defined an adequate review as one in which the reviewing official, on a monthly basis, reconciled invoices and receipts to the purchase card statements to ensure that all transactions were legitimate and necessary. The IG found that several reviewing officials signed off on monthly statements indicating completed reviews where supporting documentation was not available.

Lack of Training

Another common internal control weakness we identified was lack of or inadequate training related to the use of purchase cards. Our *Standards for Internal Control in the Federal Government* emphasize that effective management of an organization's workforce—its human capital—is essential to achieving results and is an important part of internal control. Training is key to ensuring that the workforce has the skills necessary to achieve organizational goals. Lack of or inadequate training contributed to the weak control environments at several agencies.

Navy's policies required that all cardholders and approving officials must receive initial purchase card training and refresher training every 2 years. We determined that the two Navy units lacked documentation to demonstrate that all cardholders and approving officials had received the required training. We tested \$68 million of

⁶Navy's purchase card policy is contained in two documents—Navy Supply Command (NAVSUP) Instruction 4200.94 issued September 20, 2000, and a June 3, 1999, policy memorandum from the Navy Comptroller's office.

⁷Although the ratio was met in total by both Navy units, one unit still had 23 approving officials who were responsible for more than 7 cardholders.

fiscal year 2000 purchase card transactions at the two Navy units and estimated that at least \$17.7 million of transactions were made by cardholders for whom there was no documented evidence they had received either the required initial training or refresher training on purchase card policies and procedures. Although we found during our follow-up work that the two Navy units had taken steps to ensure cardholders receive training and to document the training, many cardholders at one of the units still had not completed the initial training or the required refresher training. Similarly, at Education, we found that although the policy required each cardholder and approving officials to receive training on their respective responsibilities, several cardholders and at least one approving official were not trained.

Interior's IG also reported a lack of training related to the purchase card program. Specifically, the IG reported that although Interior provided training to individual cardholders, it did not design or provide training to reviewing officials. According to the IG, several reviewing officials said that they did not know how to conduct a review of purchase card transactions, nor did they understand how and why to review supporting documentation. As previously mentioned, the IG found that many reviewing officials were not performing adequate reviews.

Ineffective Monitoring

Our *Standards for Internal Control in the Federal Government* state that internal control should generally be designed to assure that ongoing monitoring occurs in the course of normal operations. Internal control monitoring should assess the quality of performance over time and ensure that findings of audits and other reviews are promptly resolved. Program and operational managers should monitor the effectiveness of control activities as part of their regular duties.

At the two Navy units we reviewed, we found that management had not established an effective monitoring and internal audit function for the purchase card program. The policies and procedures did not require that the results of internal reviews be documented or that corrective actions be monitored to help ensure they are effectively implemented. The NAVSUP Instruction calls for semiannual reviews of purchase card programs, including adherence to internal operating procedures, applicable training requirements, micro-purchase procedures, receipt and acceptance procedures, and statement certification and prompt payment procedures. These reviews are to serve as a basis for initiating appropriate action to improve the program and correct problem areas.

Our analysis of fiscal year 2000 agency program coordinator reviews at one of the Navy units showed that the reviews identified problems with about 42 percent of the monthly cardholder statements that were reviewed. The problems identified were consistent with the control weaknesses we found. Unit management considered the findings but directed that corrective actions not be implemented because of complaints about the administrative burden associated with the procedural changes that would be needed to address the review findings. These reviews generally resulted in the reviewer counseling the cardholders or in some instances, recommending that cardholders attend purchase card training. As a result, the agency program coordinator had not used the reviews to make systematic improvements in the program. During our follow-up work, we noted that this unit had recently made some efforts to implement new policies directed at improving internal review and oversight activities. However, these efforts are not yet complete.

At the time of our review, Education did not have a monitoring system in place for purchase card activity. However, in December 2001, the department issued new policies and procedures that, among other things, establish a quarterly quality review of a sample of purchase card transactions to ensure compliance with key aspects of the department's policy.

Transportation's IG reported that the Federal Aviation Administration (FAA) had not performed required internal follow-up reviews on purchase card usage since 1998. A follow-up review is to consist of an independent official (other than the approving official) reviewing a sample of purchase card transactions to determine whether purchases were authorized and that cardholders and approving officials followed policies and procedures.

The types of weaknesses that I have just described create an environment where improper purchases could be made with little risk of detection. I will now provide a few examples of how employees used their purchase cards to make fraudulent, improper, abusive, and questionable purchases. We also found that property purchased with the purchase cards was not always recorded in agencies' property records, which could have contributed to missing or stolen property.

Poor Controls Resulted in Fraudulent, Improper, Abusive, and Questionable Purchases

In a number of cases, the significant control weaknesses that we and the IGs identified resulted in or contributed to fraudulent, improper, abusive, and questionable purchases. We considered fraudulent purchases to be those that were unauthorized and intended for personal use. Improper purchases included those for government use that were not, or did not appear to be, for a purpose permitted by law or regulation. We defined abusive or questionable transactions as those that, while authorized, were for items purchased at an excessive cost, for a questionable government need, or both. Questionable purchases also include those for which there was insufficient documentation to determine whether they were valid.

For example, at Education, we found an instance in which a cardholder made several fraudulent purchases from two Internet sites for pornographic services. The name of one of the sites—Slave Labor Productions.com—should have caused suspicion when it appeared on the employee's monthly statement. We obtained the statements containing the charges and noted that they contained handwritten notes next to the pornography charges indicating that these were charges for transparencies and other nondescript items. According to the approving official, he was not aware of the cardholder's day-to-day responsibilities, and therefore, could not properly review the statements. The approving official stated that the primary focus of his review was to ensure there was enough money available in that particular appropriation to pay the bill. As a result of investigations related to these pornography purchases, Education management issued a termination letter, prompting the employee to resign.

We also identified questionable charges by an Education employee totaling \$35,760 over several years for herself and a coworker to attend college. Some of the classes the employees took were apparently prerequisites to obtain a liberal arts degree, but were unrelated to Education's mission. The classes included biology, music, and theology, and represented \$11,700 of the \$35,760. These classes costing \$11,700 were improper charges. The Government Employees Training Act, 5 U.S.C. 4103 and 4107, requires that training be related to an employee's job and prohibits expenditures to obtain a college degree unless necessitated by retention or recruitment needs, which was not the case here. We also identified as questionable purchases totaling more than \$152,000 for which Education could not provide any support and did not know specifically what was purchased, why it was purchased, or whether these purchases were appropriate.

The breakdown of controls at the two Navy units we reviewed made it difficult to detect and prevent fraudulent purchases made by cardholders. We identified over \$11,000 of fraudulent purchases including gifts, gift certificates, and clothing from Macy's West, Nordstrom, Mervins, Lees Men's Wear, and Footlocker, and a computer and related equipment from Circuit City.

During our follow-up work, we also identified a number of improper, questionable, and abusive purchases at the Navy units, including food for employees costing \$8,500; rentals of luxury cars costing \$7,028; designer and high-cost leather briefcases, totes, portfolios, day planners, palm pilot cases, wallets, and purses from Louis Vuitton and Franklin Covey costing \$33,054; and questionable contractor payments totaling \$164,143.

The designer and high-cost leather goods from Franklin Covey included leather purses costing up to \$195 each and portfolios costing up to \$135 each. Many of these purchases were of a questionable government need and should have been paid for by the individual. To the extent the day planners and calendar refills were proper government purchases, they were at an excessive cost and should have been purchased from certified nonprofit agencies under a program that is intended to provide employment opportunities for thousands of people with disabilities. Circumventing the requirements to buy from these nonprofit agencies and purchasing these items from commercial vendors is not only an abuse and waste of taxpayer dollars, but shows particularly poor judgment and serious internal control weaknesses.

The contractor payments in question were 75 purchase card transactions with a telecommunications contractor that appeared to be advance payments for electrical engineering services. Paying for goods and services before the government has received them (with limited exceptions) is prohibited by law⁸ and Navy purchase card procedures. Navy employees told us the purchase card was used to expedite the procurement of goods and services from the contractor because the preparation, approval, and issuance of a delivery order was too time-consuming in certain circumstances. For all 75 transactions, we found that the contractor's estimated costs

⁸ Section 3324 of title 31, United States Code.

were almost always equal or close to the \$2,500 micro-purchase threshold. Because we found no documentation of independent receipt and acceptance of the services provided or any documentation that the work for these charges was performed, these charges are potentially fraudulent, and we have referred them to our Office of Special Investigations for further investigation.

IGs also identified fraudulent purchases. The Transportation Department's IG reported on two cases involving employees' fraudulent use of their purchase cards. In one case, a cardholder used a government purchase card to buy computer software and other items costing over \$80,000 for a personal business. In the other case, a cardholder made numerous unauthorized charges totaling more than \$58,000, including a home stereo system and a new engine for his car. Additionally, Interior's IG identified fraudulent purchases such as payments for monthly rent and phone bills, household furnishings, jewelry, and repairs to personal vehicles.

One type of improper purchase we identified is the "split purchase," which we defined as purchases made on the same day from the same vendor that appear to circumvent single purchase limits. The *Federal Acquisition Regulation* prohibits splitting a transaction into more than one segment to avoid the requirement to obtain competitive bids for purchases over the \$2,500 micro-purchase threshold or to avoid other established credit limits. For example, one cardholder from Education purchased two computers from the same vendor at essentially the same time. Because the total cost of these computers exceeded the cardholder's \$2,500 single purchase limit, the total of \$4,184.90 was split into two purchases of \$2,092.45 each. We found 27 additional purchases totaling almost \$120,000 where Education employees made multiple purchases from a vendor on the same day.

Similarly, our analysis of purchase card payments at the two Navy units identified a number of purchases from the same vendor on the same day. To determine whether these were, in fact, split purchases, we obtained and analyzed supporting documentation for 40 fiscal year 2000 purchases at the two Navy units. We found that in many instances, cardholders made multiple purchases from the same vendor within a few minutes or a few hours for items such as computers, computer-related equipment, and software, that involved the same, or sequential or nearly sequential purchase order and vendor invoice numbers. Based on our analysis, we concluded that 32 of the 40 purchases were split into two or more transactions to avoid the micro-purchase threshold. During our follow-up work, we found that 23 of 50 fiscal year 2001 purchases by the two Navy units were split into two or more transactions to avoid the micro-purchase threshold.

Split purchases were also identified by the IGs at the Departments of Agriculture and Transportation. For example, Agriculture's IG reported that it investigated two employees who intentionally made multiple purchases of computer equipment with the same merchant in amounts exceeding their established single purchase limits. During 3 different months, these employees purchased computer systems totaling \$121,123 by structuring their individual purchases of components in amounts less than the individual single purchase limit of \$2,500. In September 1999, a computer procurement totaling \$47,475 was made using 20 individual purchase card transactions during a 4-day period. Other computer purchases were made in November 1999 involving 15 purchase card transactions over a 3-day period totaling \$36,418 and in June 2000 involving 15 individual transactions over a 5-day period totaling \$37,230. The IG reported that these procurements should have been made by a warranted contracting officer. Similarly, Transportation's IG reported that it identified 13 transactions totaling about \$106,000 that violated the department's policies against splitting purchases.

Missing Property

Another problem we and the IGs identified is that some property purchased with purchase cards was not entered in agency property records. According to our *Standards for Internal Control in the Federal Government*, an agency must establish physical control to secure and safeguard vulnerable assets. Such assets should be periodically counted and compared to control records. Recording the items purchased in property records is an important step to ensure accountability and financial control over these assets and, along with periodic inventory counts, to prevent theft or improper use of government property. At Education and the Navy units, we identified numerous purchases of computers and computer-related equipment, cameras, and palm pilots that were not recorded in property records and for which the agencies could not provide conclusive evidence that the items were in possession of the federal government.

For example, the lack of controls at Education contributed to the loss of 179 pieces of computer equipment costing over \$200,000. We compared serial numbers obtained from a vendor where the computers were purchased to those in the department's

asset management system and found that 384 pieces of computer equipment were not listed in the property records. We conducted an unannounced inventory to determine whether the equipment was actually missing or inadvertently omitted from the property records. We found 205 pieces of equipment. Education officials have been unable to locate the remaining 179 pieces of missing equipment. They surmised that some of these items may have been surplus; however, there is no documentation to determine whether this assertion is valid.

At the Navy units, our initial analysis showed that the Navy did not record 46 of 65 sampled items in their property records. When we asked to inspect these items, the Navy units could not provide conclusive evidence that 31 of them—including laptop computers, palm pilots, and digital cameras—were in the possession of the government. For example, for 4 items, the serial numbers of the property we were shown did not match purchase or manufacturer documentation. In addition, we were told that 5 items were at other Navy locations throughout the world. Navy officials were unable to conclusively demonstrate the existence and location of these 5 items. We were unable to conclude whether any of these 31 pieces of government property were stolen, lost, or being misused.

We and the IGs have made recommendations to the various agencies that, if fully implemented, will help improve internal controls over the purchase card programs so that fraudulent and improper payments can be prevented or detected in the future and vulnerable assets can be better protected. These recommendations include (1) emphasizing policies on appropriate use of the purchase card and cardholder and approving official responsibilities, (2) ensuring that approving officials are trained on how to perform their responsibilities, and (3) ensuring that approving officials review purchases and their supporting documentation before certifying the statements for payment. Agencies have taken actions to respond to the recommendations made. However, during our follow-up work at Education and the Navy units, we found that weaknesses remain that continue to leave them vulnerable to fraudulent and improper payments and lost assets. Management's ongoing commitment to improving internal controls is necessary to minimize this vulnerability.

In closing, Mr. Chairman, the use of government purchase cards has succeeded in reducing the bureaucracy and paperwork associated with small purchases, and we support the concept. However, control weaknesses and the resulting abuse existing in the agencies reviewed so far show that controls over the use of purchase cards need to be strengthened. While the amount of fraud and abuse that we and the IGs have identified is relatively small compared to the total amount of purchases made each year, they represent major vulnerabilities that could easily be exploited to a greater extent.

Mr. Chairman, this concludes my statement. I would be happy to answer any questions you or other members of the subcommittee may have.

Mr. GREENWOOD. Thank you.

Ms. Mead.

TESTIMONY OF PATRICIA MEAD

Ms. MEAD. Good afternoon, Mr. Chairman, and members of the subcommittee. I am Patricia Mead, Acting Assistant Commissioner, Office of Acquisition of the Federal Supply Service, General Services Administration.

I am please to be here on behalf of GSA to discuss the governmentwide charge card program. In the interest of time I am not going to read my entire statement, but I would ask that it be entered into the record in its entirety.

Mr. GREENWOOD. It will be.

Ms. MEAD. GSA has been responsible for contracting for charge card services since 1984. GSA serves as a catalyst for change in the card program by providing guidance to agencies, serving as the central repository for governmentwide data available to GSA under the contracts, and execution of contract administration functions.

GSA facilitates dialog between government and industry and develops initiatives, educates program participants, and improves program performance.

The most recent purchase travel and fleet charge card contracts were awarded in 1998 to five banks as part of the GSA Smart Pay Program. The contracts provided charge cards to streamline the procurement payment and travel processes and provided refunds to the government of \$75 million during the last fiscal year.

Refunds are provided directly to agencies and are premised upon agency charge volume and payment performance. Management and oversight of cardholders may differ depending on the type of card issued.

I will address purchase cards in my testimony. Purchase cards replace the paper based, time consuming purchase order process for small dollar procurements. With annual expenditures of approximately \$13.7 billion, the purchase card is the primary payment and procurement method for purchases under \$2,500.

The purchase card currently saves the government approximately \$1.3 billion annually in administrative costs. The purchase card is the most flexible purchasing tool available to the U.S. Government.

Liability for transactions made by authorized purchase card holders rests with the government. If the card is used by an authorized purchase cardholder to make an unauthorized purchase, the government is liable for payment, and the agency is responsible for taking appropriate action against the cardholder. Use of the card by a person other than the cardholder who does not have authority and for which the government does not receive any benefit is not the liability of the government.

The government's liability for transactions involving a lost or stolen card is limited to a maximum of \$50.

To assist our agencies with implementing good management practices, GSA is sponsoring a series of training opportunities in Washington, DC this May, June, and July, which will specifically address policy issues, indicators of fraud and misuse and preventive measures which may be implemented.

One of these sessions is targeted to the IG community.

As part of a continuing effort to improve the card program, GSA sponsors both purchase card and travel card work groups for agency program coordinators. Using the collective expertise of the program managers, two publications were developed and are available to agencies. One is for purchase cards, and that is called the Blueprint for Success: Purchase Card Oversight, and it discusses detection and prevention of purchase card misuse and fraud.

The committee has specifically requested that GSA address ways to improve program oversight and management of travel and purchase cards. The most successful government charge card programs have a common characteristic, strong commitment and leadership by senior management. It is no coincidence that agencies that clearly communicate their intolerance for payment delinquency, misuse, and abuse and hold those who fail to perform accountable also have the best run card programs.

Program risks can further be mitigated through better account management. A strong training program, state-of-the-art tools and detailed review structure gives Federal agencies all of the tools and internal controls necessary to effectively run their card programs.

As stated in the recent GAO report, “people make internal controls work and responsibility for good internal controls rests with all managers.”

GSA will continue to work to minimize risk to the government and insure proper use of the cards.

Mr. Chairman, that concludes my testimony, and I would be happy to answer any questions.

[The prepared statement of Patricia Mead follows:]

PREPARED STATEMENT OF PATRICIA MEAD, ACTING ASSISTANT COMMISSIONER, OFFICE OF ACQUISITION, FEDERAL SUPPLY SERVICE, U.S. GENERAL SERVICES ADMINISTRATION

Good morning, Mr. Chairman and members of the Subcommittee. I am Patricia Mead, Acting Assistant Commissioner, Office of Acquisition of the Federal Supply Service. I am pleased to be here on behalf of the General Services Administration to discuss the Government-wide charge card program. While much of my discussion will address purchase cards, I also would like to speak briefly to a few important issues specific to travel cards.

GSA has been responsible for contracting for charge card services since 1984. GSA serves as a catalyst for change in the card program by providing guidance to agencies, serving as the central repository for Government-wide data with respect to information available to GSA under the contracts, and execution of contract administration functions. GSA facilitates dialog between Government and industry and develops initiatives to educate program participants and improve program performance.

The most recent purchase, travel and fleet charge card contracts were awarded in 1998 to five banks as part of the GSA SmartPay® program. The contracts provided charge cards to streamline the procurement, payment and travel processes and provided refunds to the Government of \$75M during last fiscal year. Refunds are provided directly to agencies and are premised upon agency charge volume and payment performance. Management and oversight of cardholders may differ depending on the type of card issued; therefore I will address purchase cards separately from travel cards.

Purchase Cards

First I would like to discuss purchase cards. The purchase card replaced the paper-based time-consuming purchase order process for small dollar procurements. With annual expenditures of approximately \$13.7B, the purchase card is the primary payment and procurement method for purchases under \$2,500 (often referred to as micro-purchases). The purchase card currently saves the Government approximately \$1.3B annually in administrative costs. The purchase card is the most flexible purchasing tool available to the US government. Agencies use the purchase card to acquire mission related goods and services.

Liability for transactions made by authorized purchase cardholders rests with the Government. If the card is used by an authorized purchase cardholder to make an unauthorized purchase, the Government is liable for payment and the agency is responsible for taking appropriate action against the cardholder. Use of the card by a person, other than the cardholder, who does not have authority and for which the Government does not receive any benefit, is not the liability of the Government. The Government's liability for transactions involving a lost or stolen card is limited to a maximum of \$50.

Travel Cards

GSA's Office of Government-wide Policy is responsible for Federal Travel Management Policy including regulations on the mandatory use of travel cards, travel reimbursement, and collection of delinquent amounts owed to the travel card contractors. The travel card is designed to provide travelers with a payment mechanism that is accepted worldwide, eliminate—or greatly reduce the need for—cash advances, and facilitate the collection of essential management data. The Government and Government employees used the travel card to procure transportation, lodging, meals and other travel expenses valued at \$5.3B during the last fiscal year. While similar in many ways to purchase cards, travel cards present a different management challenge. Travel cards may be either Government liability (centrally billed) or employee liability (individually billed). The contractors providing travel cards have expressed concerns with cardholder delinquency and write-offs on individually billed accounts. GSA recognizes that high delinquency rates are detrimental to the program and is

working diligently with our customers to develop valuable management and training tools.

Split disbursement is the term used to describe a financial management procedure where the agency transmits funds to the agency's travel card contractor for expenses of official travel claimed by an employee that were charged to the employee's Federal contractor-issued travel charge card, with any remainder transmitted to the employee. Salary offset refers to a debt collection procedure which, in the context of the travel card program, would allow for the collection of funds owed by a Federal employee to a Government travel charge contractor as a result of delinquencies, by deduction from the amount of pay owed to that employee, not to exceed 15 percent of the disposable pay of the employee for that pay period.

As an example of the impact salary offset and split disbursement can have on an agency's performance, we point to GSA's recent implementation of these processes for GSA travel cardholders. (GSA as an agency is a user of the GSA SmartPay program for our employees.) As a result of the changes in our processes, GSA experienced a 50% decline in 60+ day delinquency and a 47% increase in recoveries of write-offs over the last twelve months. Agencies have the option of implementing salary offset and split disbursement as program improvements today, and a few have done so recently.

Management and Oversight

Agencies have numerous tools for management and oversight of the purchase and travel card program. While all payment mechanisms are subject to a certain degree of risk, GSA has built safeguards and systematic controls into the program designed to minimize risks. For example, when accounts are set up, agencies determine what limits to set on each transaction. They are able to set limits by dollar amount per transaction, number of transactions per month, spend per month, and the types of businesses at which the card may be used.

The contract provides for agency program coordinators to oversee the program. The role of the agency program coordinator includes ensuring that cardholders properly use the card and monitoring account activity. Under the GSA SmartPay contracts, agency program coordinators have access to numerous reports on cardholder activity from the banks. Realizing the need for the most current and complete data available, GSA mandated that contractors provide electronic reports to agency managers. These reports are secure and easy to access via the Internet. Agencies should use these reports to assist in the identification of questionable transactions, split purchases (improperly splitting a single purchase into two or more micro-purchases to avoid otherwise applicable competition requirements), improper cardholder limits exceeding a cardholder's contract warrant authority, and fraudulent activity. Finally, there is a full electronic record of all transactions under the GSA SmartPay program. This record is available to agencies to analyze spending patterns and to highlight questionable transactions. This electronic footprint makes fraud or misuse far easier to detect than in a paper-based environment.

To simplify the oversight process, transactions can be segregated by dollar amount, merchant type and frequency of transactions with specific merchants. Although reports can be helpful in identifying questionable purchases, review and approval of transactions at the local level continues to be our most effective control mechanism.

GSA recognizes that cardholder training is essential to ensure proper use of the card. GSA provides on-line training free to both purchase and travel cardholders. The training discusses roles and responsibilities of cardholders, proper use of the card and ethical conduct. Many agencies choose to supplement this training with written, oral or on-line training of cardholders on agency procedures.

To assist our agencies with implementing good management practices, GSA is sponsoring a series of training sessions in Washington, DC this May, June and July which will specifically address policy issues, indicators of fraud and misuse and preventive measures which may be implemented.

GSA requires that all contractors participate in an annual training conference for program coordinators. Subjects of the annual training conference include electronic reporting tools, industry best practices, fraud monitoring and card management controls. To supplement the annual training conference, written training materials provided by the contractors include cardholder guides and agency program coordinator guides. These guides address authorized uses of the card and responsibilities of the cardholder and the agency program coordinator.

All GSA SmartPay® banks maintain a sophisticated fraud detection system to identify fraudulent activity and reduce risk. These systems are designed to deter or prevent fraudulent activity by outside parties, not necessarily Government employees. In those instances where fraud is suspected, the contractor will notify the agen-

cy and begin the account cancellation process, after which a new card will be issued. The Government relies on approving officials to review purchase card transactions and determine if they are appropriate.

As part of a continuing effort to improve the card program, GSA sponsors both purchase card and travel card workgroups for agency program coordinators. This is an opportunity for program coordinators across Government to share experiences and learn from each other. Using the collective expertise of the program managers, two publications were developed and are available to agencies: "Blueprint for Success: Purchase Card Oversight" discusses detection and prevention of purchase card misuse/fraud (available on-line and in hard copy in May 02) and the "Agency/Organization Program Coordinator (A/OPC) Survival Guide" for travel card agency program coordinators discusses program management and delinquency controls (available on-line and in hard copy).

GSA will continue to work with industry and our customer agencies to develop technology to facilitate automated transaction review (e.g. data mining) and account management (e.g. on-line certification).

Steps for Improvement

The Committee has specifically requested that GSA address ways to improve program oversight and management of travel and purchase cards. The most successful government charge card programs have a common characteristic: strong commitment and leadership by senior management. It is no coincidence that agencies that clearly communicate their intolerance for payment delinquency, misuse, and abuse, and hold those who fail to perform accountable, also have the best run card programs. Program risk can be further mitigated through better account management.

While card policies can differ among agencies due to their varying missions, all agencies need to clearly address the following key areas to help ensure effective control over card usage:

- Delegation of contracting authority
- Training requirements for program coordinators, approving officials and cardholders
- Setting of reasonable single purchase and monthly limits and blocking of merchant category codes
- Annual reviews to evaluate the number of cardholders and approving officials, cardholder limits and transactions
- Uses of the card
- Receipt and acceptance of supplies and services
- Reconciling accounts and certification of transactions
- Procedures for appointment of approving officials who can determine proper transactions and act independently
- Span of control for approving officials and A/OPCs (e.g. one approving official for every seven purchase cardholders)
- Criteria for establishing accounts
- Criteria for deactivation/cancellation of cards
- To ensure policies are effectively implemented, agencies must:
- Optimize use of bank internet management tools including reports
- Work closely with their Office of Inspector General, and
- Take disciplinary/legal action as appropriate

A strong training program, state of the art tools, and a detailed review structure gives Federal agencies all the tools and internal controls necessary to effectively run their card programs. As stated in a recent GAO report on "Strategies to Manage Improper Payments, Learning from Public and Private Sector Organizations," "people make internal controls work, and responsibility for good internal controls rests with all managers".¹ GSA will continue to work to minimize risk to the Government and ensure proper use of the cards.

Mr. Chairman, that concludes my prepared remarks for today. I would be happy to answer any questions that you or members of the subcommittee may have. Thank you.

Mr. GREENWOOD. Thank you very much.

Ms. Styles.

¹ Strategies to Manage Improper Payments, Learning from Public and Private Sector Organizations, May 2001, page 8.

TESTIMONY OF HON. ANGELA B. STYLES

Ms. STYLES. Chairman Greenwood and Congressman Deutsch, I appreciate the opportunity to appear before you today to discuss the problems agencies are experiencing with the purchase card program. Reports of mismanagement, fraud, and abuse by GAO and a number of IGs are strong indications that agencies do not have adequate internal controls to manage the risks associated with the Purchase Card Program.

After a decade of acquisition reform initiatives that emphasized operational expediency and efficiency, many of the checks and balances critical for effective oversight have been marginalized to the point where taxpayer dollars are being put at an unacceptable level of risk.

To put the Purchase Card Program in the proper context, I would like to briefly review the growth and strategy behind the program. It began as a multi-agency pilot effort in 1986 and became a governmentwide program in 1989 when GSA awarded the first contract for card services.

During fiscal year 1990, the first full year of governmentwide availability, the cards were used for about 271,000 purchases worth around \$64 million.

By fiscal year 1995, purchase cards were used for more than 4 million purchases worth over \$1.6 billion. This increase in usage, while significant, was just a beginning.

In 1994, Congress created a legal framework that greatly facilitated the use of the purchase card for small dollar transactions known as micro purchases. Specifically, the Federal Acquisitions Streamlining Act created a micro purchase threshold at \$2,500 and made purchase up to this amount subject only to a minimal number of purchasing requirements.

Requirements common to most Federal procurements, such as competition and small business considerations are not mandated for micro purchases.

Of particular note, this highly simplified framework has enabled agencies to issue purchase cards to program personnel, allowing program personnel, e.g., end users, Federal employees with the actual service or product requirements to conduct micro purchases themselves using the purchase card as opposed to going through contracting offices as was previously the case.

The statutory micro purchase framework has been reinforced in several ways. In 1994, an executive order encouraged agencies to take full advantage of the purchase card and the micro purchase threshold. In 1994, the FAR was amended, the Federal Acquisition Regulation, to designate the purchase card as the preferred method for making micro purchases.

Finally, in 1997, Congress imposed a statutory requirement that by October 1, 2000, at least 90 percent of DOD's eligible micro purchases were to be made using streamlined micro purchase procedures which essentially means the use of the purchase card.

These statutory, regulatory and policy changes had a staggering effect on purchase card usage. Government wide purchase card expenditures have risen from approximate \$1.6 billion in 1995 to \$13.7 billion in 2001.

Agency interest in the purchase card is not surprising. They have reduced both the purchasing burden on contracting officers and the administrative burden of the paper based process that purchase cards replaced.

In addition, agencies receive significant rebates on their expenditures.

Unfortunately, numerous reports suggest that management practices have not evolved to accommodate the rapid growth of the program. These reports point to a variety of management breakdowns which I have outlined in my written testimony. The inadequacy in management controls is especially troubling given the many tools available for agencies to use to manage the purchase card risk.

GSA, for example, issues guidance for agency program coordinators, cardholders, offers free on-line training, holds conference and work groups and has recently developed comprehensive guidance on purchase card oversight.

With all of these tools and technologies, I am deeply concerned by the failure of agencies to implement proper controls to protect the government from unnecessary risk. Agencies cannot continue to manage their programs as they have in the past. They must re-evaluate their efforts and take meaningful corrective action to restore the integrity of their operations.

On April 18 of this year, the Director of OMB issued a memorandum to the heads of all departments and agencies requesting a comprehensive review of their internal controls for both purchase and travel card expenditures. Each agency is required to submit a remedial action plan for both travel and purchase card programs to OMB by June 1 of this year. These plans will be reviewed by my office, the Office of Federal Financial Management, and OMB's resource management offices.

OMB is specifically concerned with the lack of adequate internal controls and have emphasized this concern in the memorandum. Agencies are expected to establish better internal controls by setting appropriate spending limits, providing effective training in order to better manage their programs, and generally improving oversight.

We have asked the agencies to give serious consideration to deactivating a large number of accounts and reissuing cards to a smaller more appropriate number of employees based on demonstrated need.

Having nearly 2.5 million travel and purchase cards in circulation is excessive, and we expect the agency to consider reducing the number of cards to a more appropriate level.

We have also asked agencies to take immediate administrative action against employees who have abused their charge card privileges.

Finally, the memorandum makes clear that cases involving possible fraud should be referred to the appropriate civil and criminal authorities. I thank the committee for its interest in improving the government's Purchase Card Program. If operated properly, the program is a valuable tool for procurement and financial management.

We are dedicated to improving the effectiveness of the program while reducing the incidence of fraud and abuse. Better program

management begins with a commitment from senior managers, and I assure you that OMB places a top priority on improving the card program and expects agencies to consider it a top priority as well.

We welcome the opportunity to continue this discussion with you as we review the purchase card program, identifying long-term solutions to improve agency performance.

This concludes my prepared remarks, and I am pleased to answer any questions you may have.

[The prepared statement of Angela B. Styles follows:]

PREPARED STATEMENT OF ANGELA B. STYLES, ADMINISTRATOR FOR FEDERAL
PROCUREMENT POLICY, OFFICE OF MANAGEMENT AND BUDGET

Chairman Greenwood, Congressman Deutsch, and Members of the Subcommittee, I appreciate the opportunity to appear before you today to discuss the problems agencies are experiencing in managing their purchase card programs. While the program is a valuable tool, recent General Accounting Office (GAO) and Inspector General (IG) reports indicate that serious management reforms are needed to reduce fraudulent and unauthorized purchases. The integrity of the purchase card program has been damaged by irresponsible or fraudulent acts and must be restored.

Reports of mismanagement, fraud, and abuse are strong indications that agencies do not have adequate internal controls in place to manage the risk associated with the purchase card program. As a result of a decade of acquisition reform initiatives that have largely emphasized operational expediency, many of the checks and balances critical for effective acquisition oversight have been marginalized to the point where taxpayer dollars are being put at an unacceptably high level of risk. Although the purchase card program operates as a partnership between agencies, the banks, and the General Services Administration (GSA), agencies, first and foremost, must take responsibility for the internal management breakdowns that have led to the types of problems we will discuss today.

The Charge Card Program—Travel and Purchase Cards

I have been asked to focus on the problems with purchase cards, but would like to explain briefly the differences in liability and scope of the purchase and travel card programs. While both card programs expose the government to risk, each is operated differently and presents unique management challenges.

As a general rule, purchase card accounts are centrally billed: vendors are paid directly by the government. When the purchase card is used, the government assumes direct liability. Travel card accounts are generally billed individually, requiring the employee to pay the bill. The agency then reimburses the employee. The individual assumes liability for travel card purchases, and the banks can refer delinquent accounts to collection agencies, much as a bank would with a personal credit card.

In accordance with Public Law 105-264, "Travel and Transportation Reform Act of 1998," federal employees are generally required to use the travel card for all payments of expenses for official government travel, such as hotels and restaurants. As a result, the federal government has issued over 2 million travel cards to civilian and military personnel. Half of the federal workforce carries a government travel card whether they travel once a month or once a year. Delinquency rates of 9 percent for civilian agencies and 12 percent for the Department of Defense (DOD) suggest that the travel card program also needs to be reexamined.

The programs differ vastly in scope as well. In 2001, agencies issued approximately 390,000 purchase cards and spent \$13.7 billion in purchases. In the same year, agencies issued 2.1 million travel cards and spent \$5.3 billion. Purchase cards, though fewer in number account for more expenditures and expose the government to greater liability. My comments today will be targeted at the problems associated with the purchase card program.

Micro-Purchases and The Purchase Card Program

Agencies delegate buying authority to purchase cardholders to buy goods and services needed to support mission goals. Each transaction averages approximately \$570 and is generally made in accordance with the micro-purchase provisions set forth in Federal Acquisition Regulation (FAR) 13.2. Micro-purchases are defined by statute, 41 USC 428, as purchases at or below \$2,500. These purchases are not subject to competition, nor are they reserved for small businesses. As I will discuss later, the purchase card is the preferred method for making micro-purchases, which

helps to explain the volume of purchase card transactions and, therefore, the potential for abuse. Agencies often tie their delegations of buying authority to the micro-purchase threshold and any increase in the threshold increases the government's exposure to risk.

Employees can also use the purchase card to pay for goods and services in excess of the micro-purchase limit. FAR 13.301 sets the policy for use of the purchase card as a payment tool under any other type of contract, including task or delivery orders under existing contracts, basic ordering agreements, or blanket purchase agreements. While purchases over \$2,500 must be made in accordance with the governing FAR provisions, including competition requirements, some cardholders have been delegated payment authority up to \$100,000 or more. Cardholders with this authority use these cards as a convenient payment method, and this ease of payment increases the government's exposure to liability. Determining whether purchases over \$2,500 were made in accordance with the FAR (to place orders under existing contracts or to make payments), or were open market purchases that should have been subject to competition and other acquisition requirements, can be difficult. Inappropriate transactions may go undetected. The high spending limits and the difficulty in ensuring the appropriate use of FAR provisions creates an environment ripe for fraud and abuse.

History and Growth of the Purchase Card Program

The purchase card program began as a multi-agency pilot effort in 1986, and became a government-wide program in 1989 when GSA awarded the first contract for card services. During the first 5 years of the contract, the volume of purchases increased by nearly 1,500 percent, the dollar volume by 2,400 percent. The Federal Acquisition Streamlining Act of 1994 (FASA) established the micro-purchase threshold discussed earlier, and Executive Order 12931, Federal Procurement Reform, was also issued in October 1994 to encourage the expansion of the purchase card program and take advantage of the micro-purchase authority provided for in the statute. As a result, the purchase card became the preferred method for making micro-purchases; this policy is set forth in FAR 13.201.

Additionally, Section 848 of the Defense Authorization Act for Fiscal Year 1998 required that, by October 1, 2000, at least 90 percent of DOD's eligible micro-purchases be made using streamlined micro-purchase procedures, which essentially means use of the purchase card. As a result of these statutory and regulatory preferences for card usage, the purchase card expenditures rose from approximately \$1.6 billion in 1995 to \$13.7 billion in 2001.

Agencies receive rebates on their expenditures, generally based on transaction volume, payment terms, or both, depending on the conditions negotiated in their task orders with the banks. Rebates for expedited payment generally increase with the speed of payment, and many agencies maximize these rebates by paying within twenty-four to forty-eight hours. GSA estimates that agencies were refunded nearly \$75,000,000 in 2001 under the travel and purchase card programs, substantially due to expedited payments. Discounted payment terms are a significant benefit of the card program, and agencies should optimize rebates by processing card payments quickly.

Lack of Adequate Management Controls

While the purchase card program has benefited agencies in some ways, management practices have not evolved to accommodate the rapid growth of the program. Because this gap has created opportunities for a wide range of fraud and abuse, we have taken and will continue to take substantive, affirmative steps to ensure agencies improve their internal control systems to monitor expenditures properly.

I am concerned by reports of inadequate management oversight and review, lack of account administration, excessive spending limits, and inadequate training. Here are a few examples:

- According to the Department of the Interior (DOI) IG Advisory Report, 2002-I-0011, issued December 2001, an investigation of their integrated card program—travel and purchase—indicated that 1,116 former employees still had active charge cards. Their investigation, based on a statistical sampling process, is disturbing because the termination of accounts for former employees is a basic card administration function.
- According to a DOD IG Report, "Controls Over the DOD Purchase Card Program, D-2002-075," issued March 29, 2002, 6,533 cardholders had monthly spending limits of over \$100,000 and 40 of those cardholders had a limit of \$9,999,999. While delegations in excess of the micro-purchase threshold may be justified in some instances, this level of exposure to risk, without proper management controls in place, is unacceptable.

- The same DOD IG report also indicated that 29,120 purchase cards were unused for over 6 months, raising the question of whether the cards should have been issued. The circulation of unnecessary cards exposes the government to liability and is indicative of the poor controls agencies are using to manage their card programs.
- The DOD IG further reported that purchases of over \$439,000 were processed after card accounts were no longer approved for use. Agency approving officials and program coordinators were not aware that these closed accounts could still be used until they were terminated a separate administrative process.
- According to the DOD IG report, over \$4 million in inappropriate transactions by employees appear to have been made with businesses such as pawnshops, jewelry stores, and antique shops. Agencies have the ability to prevent purchases from certain merchants but often do not. This lack of attention to risk management is expensive, unacceptable, and must be corrected.
- A February 2002 letter report from the Department of Energy (DOE) IG, I01OP001, found that contractor employees, who had been issued purchase cards in accordance with the GSA contracts, used federal funds to purchase personal property or property not related to the contract. This report also indicated that some contractors did not require basic separation of duties, which allowed the same person to make purchases, reconcile the invoice, and retain the documentation. No independent review was required.

Based on the DOE report, I plan to carefully review the provisions in FAR 51.1 that currently allow federal agencies to issue purchase cards to contractors. This FAR provision establishes the conditions for contractor use of government supply sources, and to facilitate these transactions, GSA's master purchase card contracts allow for conditional use of the card by contractors, when approved by GSA and the issuing agency.

These examples are important because they represent the types of problems many agencies are experiencing. These instances of poor oversight are not just embarrassing to the government, but demonstrate a serious lack of internal controls that creates an environment vulnerable to fraud.

Purchase Card Fraud

Turning to a more serious consequence of poor program management let me share a few examples of the abuses documented in GAO and IG investigations. These egregious examples of fraud tarnish the image the federal workforce, our greatest resource. While these incidents may be anomalies, they nevertheless diminish the public's trust in government and must be addressed immediately to prevent recurrence.

As reported by the DOE IG, lack of oversight and review allowed a contractor program manager to purchase \$85,000 of personal or non-contract property, and a subordinate to charge \$13,000 on his manager's card. Both were terminated and pled guilty to theft charges. In another example, a Department of Commerce employee, who made personal charges on a government purchase card and then confiscated invoices to avoid detection, was successfully prosecuted. The employee was sentenced to jail and full restitution is being pursued.

A DOD IG memorandum, dated March 19, 2002, lists examples of fraud cases that were successfully prosecuted. DOD secured restitution and other fees totaling almost \$1.5 million—a significant loss recovery effort—in the eleven cases described. Defendants were sentenced to prison, probation, home detention, or other appropriate remedy, and held responsible for their actions. I expect to see more examples of this commitment to accountability as we improve the purchase card program. Agencies must be more aggressive in referring potential fraud cases to the appropriate civil and criminal authorities. Such action deters potential card abusers and demonstrates strong agency commitment to improving program integrity.

Management Tools

These reports are even more troubling given the many management tools available for agencies to use. GSA, for example, issues guidance for agency program coordinators and cardholders, offers free online training, hosts conferences and workgroups, and has recently developed comprehensive guidance on purchase card oversight. With all of these tools available, I am deeply concerned by the failure of agencies to implement proper controls to protect the government from unnecessary risk. Agencies cannot continue to manage their programs as they have in the past; they must reevaluate their efforts and take meaningful, corrective measures to restore the integrity of their operations.

OMB Action

On April 18, 2002, the Director of the Office of Management and Budget (OMB) issued a memorandum to the heads of all departments and agencies requesting a comprehensive review of their internal controls for both purchase and travel card expenditures. Each agency is required to submit remedial action plans for both travel and purchase card programs to OMB by June 1, 2002, which will be reviewed by my office, the Office of Federal Financial Management, and OMB's Resource Management Offices.

OMB is specifically concerned with the lack of adequate internal controls and has emphasized this concern in the memorandum. Agencies are expected to establish better internal controls by setting appropriate spending limits, providing effective training in order to better manage their programs, and generally improving oversight.

We have asked agencies to seriously consider deactivating a large number of accounts, and reactivating the accounts of a smaller, more appropriate number of cardholders based on demonstrated need.

We have also asked agencies to take immediate administrative action against employees who have abused their charge card privileges and, in cases involving possible fraud, refer them to the appropriate civil and criminal authorities. While some agencies have pursued these remedies, employees who abuse their card privileges are not always held accountable and may continue to work in the federal service. Documented cases of travel and purchase card abuse should be included in an employee's official personnel file for future reference.

OMB recently approved an E-government effort to improve the sharing of human resources information among agencies, which may reduce the incidence of repeated credit card abuse. The Office of Personnel Management (OPM) is leading an effort, Enterprise Human Resources Integration, to consolidate employment information in a central system. My office will work with OPM to determine if proven card abuse can be included in this system as part of an employee's permanent record.

Conclusion

I thank the Subcommittee for its interest in improving the government's purchase card program. If operated properly, the program is a valuable tool for procurement and financial management. We are dedicated to improving the effectiveness of the program, while reducing the incidence of fraud and abuse. Better program management begins with a commitment from senior managers, and I assure you that OMB places a top priority on improving the card programs and expects agencies to consider it a top priority as well.

We welcome the opportunity to continue this discussion with you as we review the purchase card program, identifying long-term solutions to improve agency performance. This concludes my prepared remarks, and I would be pleased to answer any questions you or the Members of the Subcommittee might have.

Mr. GREENWOOD. Thank you. I appreciate that.

The Chair recognizes himself for 10 minutes to inquire.

All of you, I think, have been here diligently since 10 o'clock this morning. So I believe you heard all of the other testimony, and one of the things that has stuck in my mind is that I asked a series of questions to Mr. Mournighan, who is the Deputy Director of Procurement and Assistance for Energy, and we heard about the fact that there were many more contractor employees at Energy than there are Federal employees; that the fraud that has been found has been found 85 percent in the contractor employee mix; and I asked him what the most important criteria, most important safeguard, I should say, to protecting against fraud and abuse was, and he said it was to have a second person sign off on purchases.

And then when asked, "Well, is that essentially the way you do it?" he said, "No, we do not have that requirement."

Would any of you like to respond to that or comment on what you heard in his testimony or anything else that struck you in the hearing so far?

Ms. STYLES. I would be glad to. I think one of the key questions of the Department of Energy is the liability for the card itself and

what we haven't been able to determine to date is when a contractor has a card in hand, is the bill being sent to the Federal Government.

We think that creates a more significant environment for fraud than if the bill is going directly to the contractor. We are taking a closer look to see if we can determine of the what we believe are 11,000 cards in the hands of contractor employees of the Department of Energy where those bills are going and what the environment that has been created there looks like.

Mr. GREENWOOD. Well, I would comment I do not claim to be an expert on this, but I have been looking at it with all of you and the other witnesses for a little while now. I cannot really quite fathom a system in which a contractor employee has a credit card and makes purchases which become an obligation of the Federal Government without any action necessary by the contractor himself.

It seems to me that the Federal Government should—it seems to me that the policy should be that we should never reimburse for a purchase made by a contractor employee. We should only reimburse for invoices submitted by contractors.

So a contractor should have the responsibility to say these are purchases made in behalf of the contract that I hold in the last 30 days. Here they are enumerated. Some kind of an indication, and it is not too much to ask to say the reason that we bought this car or the reason we bought this truck, the reason we bought this camera, this computer was for this purpose, and here is where it is and how it is being used, and then submit that and at least the contractor is vouching for it, which means thousands of contractor employees are going to go, "I cannot just shoot this to Uncle Sam. It has got to go through the boss. If the boss catches me trying to get over, he is going to get me." It just seems that not having that fire-wall in there between the employee and the Treasury is really asking.

Now, as the three of you have looked at this issue, have you made determinations yet as to whether you think that tightening this system up to the degree that it needs to be tightened up because I think we all agree that for the taxpayer out there, this just sounds like the worst thing of all.

I work hard all day long. I pay my Visa bill, and they've got some clowns out in the Federal Government who's buying themselves jewelry and no safeguards.

Have you ascertained whether you think all of this can be straightened up to the level it should be without any additional Federal legislation or whether you think we're going to need legislation?

Ms. MEAD. Well, I think the Director of OMB, Mitch Daniels' letter to the agencies has focused a good bit of management's attention on the things that need to be done in terms of controls, and we at GSA will certainly be working closely with OMB to review those agencies' plans to make sure that they have the right controls in place and how they plan to make sure that those are implemented, not just that they are there, but that they are being used.

And we will certainly pay particular attention to contractors' use of charges cards. I think that the scrutiny that the program is

under now is a good thing. The fact that Congress is shining a spotlight on it. The media is shining a spotlight on it. The administration is doing the same. I think that is good.

We at GSA are very concerned about the integrity of the program. There are many benefits to the program, and I think that we have put the right infrastructure in place, and we would not want to jeopardize the program by improper use and misuse of the card.

So we are very interested in making it work right.

Mr. GREENWOOD. Ms. Styles, have you gotten to the point yet where you feel like you know whether you need legislation or are you waiting for your reports back from the agencies?

Ms. STYLES. Well, we are waiting for our reports back from the agencies, but I have to tell you that the presumption when the agencies come in with their plans is that unless you have a very good plan for oversight, we think the cards should be deactivated.

But that does not mean that there is not a need here for legislation, and I think we are perfectly willing to work with you on appropriate legislation to emphasize the seriousness of the problem. We are going to work on our end. We are going to work through regulations. We are going to make appropriate changes to the FAR, as I mentioned in my testimony, dealing with contractors that have purchase cards in their hand, but that does not mean that in this instance legislation would not be appropriate, and we are certainly perfectly willing to work with you going forward.

Mr. GREENWOOD. Thank you.

Director Calbom, did you want to comment?

Ms. CALBOM. Yes. One of the things that we are seeing is it is not for lack of the right policies and procedures necessarily that is causing the problem. It is that they are not being followed.

And you know, this whole idea of the approval function, if the approval function which everybody requires, if it was working properly, we would not see most of these problems occurring.

Mr. GREENWOOD. I will tell you what my thoughts are on that. The approvers, as far as I know, there are not very many full-time approvers. They are all managers. And my guess is that most of them find themselves on a daily basis having tasks that they consider to be more urgent. You have got to get that report on the boss' desk. You know, there are things that have to be done.

And I would guess that reviewing all of these vouchers is probably one of the last things on their list of priorities because nobody calls them with a frantic phone call that it has not been done.

And I do not know how you are going to change that because, you know, there are things that are important, but not necessarily urgent, and they do not get our attention. And so I think that is a weakness of the system that is going to require a completely new—we cannot depend on that. I have no expectation that you are going to depend upon the notion that suddenly all of these reviewers are going to say, "Yeah, that is going to be more important than getting the report that is due tomorrow morning done."

I just do not see how that is going to happen. So I am trying to think out of the box in terms of whether we ought to have a contractor whose job it is to do these reviews and provide financial incentive to say, "Look. We are going to let some contracts out there

or a contract, and your job is to have a data processing system that reviews ever one of these transactions, and you be very clever about the way that you find outliers and so forth. You do checks and balances, and we will provide you some kind of financial incentive so that every dollar of misused Federal funds you find, you will get some percentage of that back."

Now, that would become very urgent, and it would not become the last thing that they would have done. It would be the only thing that would be done. And I suspect you might, you know, find some resistance to that, but I think we have to have a system in which people have very strong incentives to check every penny, and I do not think we have that in place now.

Let me see what I was going to ask here.

What about the very high limits? Let me ask you again, Director Calbom. Can you explain why it is that we need to have people walking around with limits of 100,000 or 500,000? Do people actually make—I am trying to think about what kind of purchases one would make. I mean, are they buying bulldozers or what are they buying for these kinds of six, seven figured numbers?

Ms. CALBOM. I really do not see the need in most cases to have those kind of high limits on them. There might be one or two people in an organization that need the higher limits, but by and large, the Purchase Card Program was meant for small purchases, and you know, when you are buying higher dollar things, you really need to go through the regular procurement process.

Mr. GREENWOOD. You would think, yes.

Ms. CALBOM. Yes, there are more checks and balances built into that process.

The purchase card program is supposed to be for, just your basic day-to-day needs, and it is supposed to be small purchases. So I really do not see the need for those high limits in most cases.

Ms. STYLES. And if I can clarify something, it is being used as a payment vehicle for some contracts and not just a purchase vehicle. So you will have gone through the normal contracting practices. You have full and open competition or otherwise, gotten in your bids, and when you want to pay your contractor, you may actually be using the purchase card to make the payment, the concern there being from some contractors that it is taking a long time through the normal invoicing process to actually receive payment, and so it is faster to pay your contractors with a purchase card even though you have a different contracting vehicle in place.

Mr. GREENWOOD. Sure, and it would be very fast if we just had a big vault full of cash and told them they could come and get what they need.

It seems to me that the solution to that problem is to speed up the invoice process, not to have——

Ms. STYLES. Absolutely because we cannot make a distinction now with somebody that has a high limit if they are actually appropriately using contracting vehicle when they may have actually just gone out and paid \$900,000 for something without actually having an appropriate contracting vehicle in place.

Mr. GREENWOOD. Right. The Chair recognizes—oh, go ahead.

Ms. CALBOM. I was just going to follow up on that. It kind of gets back to what you were saying earlier on using the purchase cards

rather than having, in the DOE case, the contractor list every item specifically on an invoice, you use a purchase card, and it takes away some of that ability to review carefully what exactly you are being charged for.

So I think it kind of goes hand in hand.

Mr. GREENWOOD. The Chair recognizes the gentleman from Florida for 10 minutes.

Mr. DEUTSCH. Thanks.

Ms. Calbom, do you think it is cost effective to deactivate an entire agency's purchase cards, as Ms. Styles has suggested?

Ms. CALBOM. I do not know that it is cost effective. I mean, I have seen reports that the purchase card program really does save lots and lots of money. I think it may be appropriate if you have segments of an agency that have demonstrated that they have very weak controls and cannot properly manage the program, as I guess was the case for one of the Navy units we reviewed. They actually deactivated all of the cards until they could get a better handle on the program. I think that may be appropriate.

But you know, again, it is a cost-benefit thing. You have got to weigh the two, but certainly if you find an entity or segment that is way out of control, maybe it is a good thing to do.

Mr. DEUTSCH. Ms. Styles, the Office of Management and Budget is somewhat, I guess, behind some of the other agencies dealing with credit card fraud. Your directive to the agencies is dated April 18, 2002.

Now that you are here, can you give us an estimate of the total amount to defraud in the \$13.7 billion in purchases?

And, again, specifically as we have heard earlier, Commerce would say that they would only have one-one hundredth of a percent.

Ms. STYLES. The reason that we sent the memo out is because I think we saw growing concern internally from the IGs, from GAO, from the Hill, that it was not anecdotal instances of fraud.

Commerce has clearly a good program on the books, seems to be managing their cards well, but we look at an agency like the Department of Interior that has 11,000 cards in the hands of former employees. Our only response to that can be: you have to start from scratch. You cannot assume when you have lost your credit card that it is okay to just go ahead and keep those all activated.

There are some agencies where I think we must take the approach of we are going to deactivate them and start from scratch unless you have another more appropriate plan in place.

Mr. DEUTSCH. Well, let me ask specifically. Has OMB done a cost-benefit analysis of the use of the cards?

Ms. STYLES. No, we have not.

Mr. DEUTSCH. Okay, and are you planning on doing that?

Ms. STYLES. Certainly there have been studies done. There was one in 1996, I believe, that showed savings of about \$54 per transaction. Obviously that is a significant savings, but until we know the extent of the fraud, I think it is difficult to make that cost comparison.

And quite frankly, until we have appropriate management structures in place to control this issue, I do not think we are going to be able to get a handle on that.

Mr. DEUTSCH. Ms. Mead, has GSA done a cost-benefit analysis?

Ms. MEAD. The study that Ms. Styles just mentioned was a study that GSA commissioned, and I think it was in 1996, was it, Nancy? 1994, and yes, that was based on the cost of processing paper transactions both through the procurement and the finance process, \$54 per transaction.

Mr. DEUTSCH. So that was the cost of savings?

Ms. MEAD. Yes.

Mr. DEUTSCH. Okay. So that did not do any of the negative part, just the positive savings.

Ms. MEAD. Yes.

Mr. DEUTSCH. Okay. So it was just the positive.

Ms. Calbom, GAO looks at many types of fraud. Where does this fit on your fraud meter?

Ms. CALBOM. Certainly I think the incidences of fraud that we have found in the Purchase Card Program are higher than what we have seen in some of our other audit areas. I might just turn to one of my colleagues and ask him real quick.

It is a little bit difficult to answer that question because the purchase card work we have been doing is designed specifically to look for fraud as opposed to in my area we do a lot of financial statement audits which are materiality driven, and would not necessarily ferret out all of the fraud. But the types of audits we do here are really trying to get all the way down regardless of materiality and look for the fraud.

But certainly we have found there are instances everywhere we looked.

Mr. DEUTSCH. Ms. Styles, what do you mean when you say checks and balances for effective acquisition oversight have been marginalized to the point where taxpayers' dollars are put at any unacceptably high level of risk?

Ms. STYLES. Well, before we started down the path of procurement reform, there was a three-part structure of checks and balances for purchases, and it was generally paper based, but you had your procurement official that did the buying; you had your program person that had the requirement; and you had your finance person that paid the bill.

So you essentially had three checks there or at least two checks on the person with the need. What you have done or what we have done with the purchase card and the micro purchase threshold in many instances is collapse the checks and balances that you had there into one person.

So the program person that has the need for the good and service is the one that is also the procurement person, who is the buyer, and sometimes is the one who also pays the bill.

Mr. DEUTSCH. Okay. You have described what used to exist and what exists today. I mean, would you want to go back to the prior system?

Ms. STYLES. I certainly do not want to go back to a paper based system, and I am not questioning the clear benefits and the efficiencies that we have achieved, but there has to be a question in your mind at some point if that is really appropriate or we have the appropriate level of checks and balances.

You cannot have this much tremendous growth in a program without a commensurate growth not only of the policies, because I think a lot of the agencies have policies on the books to deal with this, but the implementation of that management structure to make sure that this program is being managed properly and that you have an appropriate level of checks and balances in place, maybe not the same checks and balances that you had pre-1992, but at least some level of checks and balances that clearly are not in place right now.

Mr. DEUTSCH. Is OMB intending to give the agency's Inspector General more resources to focus on credit card and travel card abuses?

Ms. STYLES. I am not on the budget side of the shop. I would certainly be glad to answer that question for the record though.

Mr. DEUTSCH. All right. Representative Tom Davis has introduced legislation to increase the purchase limit on these cards from 2,500 to \$25,000. What is your response to this proposal? Would it increase problems in areas, such as split purchasing to avoid competition?

We can just maybe go down the line. Ms. Styles.

Ms. STYLES. We have concerns about raising the micro purchase threshold to \$25,000. Our concerns are in two areas. One is the subject of this hearing today, which is the management controls on the purchase card program and the increased issues that raising the micro purchase threshold would raise.

The second one, and I think it is an important one for this administration, is the effect that raising the micro purchase threshold could have on small businesses. There is, at least we believe, some link between raising the micro purchase threshold and purchases made to small businesses. When you raise the threshold, generally you are decreasing the number of purchases going to small business.

Mr. DEUTSCH. Ms. Mead.

Ms. MEAD. Our agency does not have a position that is contrary to the position of OMB.

Mr. DEUTSCH. Ms. Calbom?

Ms. CALBOM. I do not think we would be in favor of that until the agencies get the good controls in place to demonstrate they can properly manage the programs.

You know, the other issue is the \$2,500 micro purchase limit is being circumvented regularly right now as it is, and so I would hate to see what would happen if we went up to 25,000.

Mr. DEUTSCH. Ms. Calbom, do you think that the Commerce program is about as good as it is going to get in terms of, you know, dealing with the fraud issue?

Ms. CALBOM. We have not really looked at the Commerce program yet. So I cannot really comment on that at this point.

Mr. DEUTSCH. Commerce has no contractor cards. Is it more difficult to control contractor cards than employee cards?

Ms. CALBOM. We have not looked at an agency that has contractor cards. So I really cannot comment.

Mr. DEUTSCH. Ms. Mead, how do you control your contractor cards?

Ms. MEAD. As far as I know, we do not have cost reimbursable contractors who have cards.

Mr. DEUTSCH. So you have no contractor cards that you are aware of.

Ms. MEAD. GSA has no contractor cards?

Mr. DEUTSCH. I do not know. Do you have contact—

Ms. MEAD. I am not aware of any. I will ask our contracting office.

Mr. DEUTSCH. No contractor cards?

Ms. MEAD. No.

Mr. DEUTSCH. Ms. Mead a recent survey by the Associated Press found out less and less procurement is being done in a competitive manner. Mr. Chairman, without objection, I would like to put this article dated March 31 into the record.

Mr. GREENWOOD. It will be in the record.

Mr. DEUTSCH. One of the reasons is the use of credit cards. The FAR mandates full and open competition under most circumstances. Do you agree with this analysis and what can be done to create more competition?

Ms. MEAD. I agree that there needs to be competition above the micro purchase threshold level, and I do not think that it is necessarily the card that is the problem.

Mr. DEUTSCH. Ms. Calbom?

Ms. CALBOM. Again, we have not really reviewed that aspect.

Mr. DEUTSCH. Ms. Styles?

Ms. STYLES. We have serious concerns not because of the micro purchase threshold necessarily. Above the micro purchase threshold, which I think is the subject of that article, that we have a significant number of procurements that are not subject to full and open competition that are causing some significant problems.

We actually, based on our concerns in that area, have undertaken to examine the issue and its effect on small businesses specifically, but businesses in general. The President on March 19 announced an initiative to review our contracting practices, particularly with respect to whether we have sufficient, full and open competition so that our businesses have access to the Federal marketplace.

We anticipate reporting back to the President on our recommendations for changes to the contracting system this fall.

Mr. DEUTSCH. Thank you very much.

Mr. GREENWOOD. I thank the gentleman.

Mr. DEUTSCH. Mr. Chairman, I think we have had a very successful hearing.

Mr. GREENWOOD. Thank you, sir.

Before we wrap up, GSA did the study on the savings in 1994; is that correct?

Ms. MEAD. That is correct.

Mr. GREENWOOD. Was that the \$1.3 billion figure? Is that from that study?

Ms. MEAD. That is a function of the number of transactions per year based on the \$54 savings per transaction.

Mr. GREENWOOD. Okay. No. 1, would you please supply the subcommittee with that study?

Ms. MEAD. Certainly.

Mr. GREENWOOD. We do not seem to have a copy of it here.

And when you do, if it does not have one, just give us a quick and dirty analysis of how that number was derived because as I think about that, when Ms. Styles talked about collapsing the three overseers into one, I could imagine how if we by going to the purchase card process divested the government or ten or 15,000 employees who were doing nothing but doing that. You could see how you could get to that kind of a figure.

My guess is, without seeing the report, my guess is the large part of that savings is attributable to time, to person-hours saved. And yet most of the people doing this work I assume have other duties, and I do not know that this program has resulted in the laying off of tens of thousands of people to get that kind of savings.

So what I have a sneaking suspicion is that there was a calculation made about how much time it took to go through the old paper system and do all of the reviews, and those number of hours times some dollar figure was construed to be what it cost to review the system. And look hurrah, we are saving all of that time, but unless the work force was reduced, you did not save any money, but you are still paying all of those same people. They are just doing something else.

Ms. MEAD. I think there was a reduction in the number of clerks, for example, procurement clerks and finance clerks that handled the paper. Those resources may well have been reprogrammed for more mission oriented needs by agencies.

Mr. GREENWOOD. Right.

Ms. MEAD. So in a sense they are doing more with less, if you will.

Mr. GREENWOOD. Okay. Well, we would like to have that report.

And we thank each of you for your testimony, for your patience certainly for being here for over 4 hours, and we thank Paul.

The subcommittee is adjourned.

[Whereupon, at 2:17 p.m., the hearing was adjourned.]